

UNITED STATES OF AMERICA

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DEPARTMENT OF THE TREASURY

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FINANCIAL MANAGEMENT SERVICE

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FEDERAL AGENCY DISBURSEMENTS PUBLIC HEARING

+ + +

Tuesday, December 9, 1997

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LOS ANGELES, CALIFORNIA

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The public hearing convened on the 5th floor Conference Room, Federal Reserve Bank, 950 South Grand, Los Angeles, California, at 9:20 a.m., Bettsy Lane, Moderator, presiding.

APPEARANCES:

GOVERNMENT PANEL

DONALD HAMMOND, Deputy Fiscal Assistant
Secretary, Fiscal Service, Department of Treasury

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APPEARANCES: (Continued)

GOVERNMENT PANEL (Continued)

LARRY STOUT, Assistant Commissioner, Federal
Finance, Financial Management Service,
Department of Treasury

WILLIAM SHELTON, Associate Deputy Assistant
Secretary for Office of Financial
Operations, Department of Veterans Affairs

THOMAS G. STAPLES, Associate Commissioner for
Financial Policy and Operations, Social
Security Administration

SHEILA LEITER, Los Angeles Area Director, Social
Security Administration

BETTSY LANE, Director, Cash Management
Directorate, Financial Management Service,
Department of Treasury

WITNESS

CONGRESSWOMAN MAXINE WATERS, House Banking and
Financial Services Committee

CONSUMER ISSUES - PANEL #1

ALAN FISHER, Executive Director, California
Reinvestment Committee

PAUL HUDSON, President and CEO, Broadway Federal
Bank, FSB, Los Angeles, California

JOHN BRYANT, Chairman and CEO, Operation Hope
(Investment Banking), Los Angeles, CA

LEONARD RANDOLPH, Executive Director, East Palo
Alto Community Alliance and Neighborhood
Development Organization

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APPEARANCES: (Continued)

FINANCIAL SERVICES ISSUES - PANEL #2

LEA BAINES, Chairman, Ravenswood Federal Credit
Union, East Palo Alto, California

W. PAGE OGDEN, President and CEO, Britton and
Koontz First National Bank, Natchez,
Mississippi

BRENDA YOST, Senior Vice President, Bank of
America San Francisco, California

JAMES BALL, National Check Cashers Association,
Hackensack, New Jersey

CONSUMER ISSUES - PANEL #3

ANNE MILLER, Member, AARP Board of Directors

CHANCELA AL-MANSOUR, Attorney, San Fernando
Valley Neighborhood Legal Services

LAURA FRY, Attorney, Legal Aid Foundation of Los
Angeles

JIM BLIESNER, San Diego City County Reinvestment
Task Force

CONSUMER ISSUES - PANEL #4

JERRY DOYLE, Department of Community Action

TESSA CARMEN DE ROY, Coordinator, Communities for
Accountable Reinvestment

SELWYN WHITEHEAD, President, Economic Empowerment
Foundation

CONSTANCE BOTELHO, Program Associate, California
Reinvestment Committee

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P R O C E E D I N G S

(9:20 A.M.)

MR. HAMMOND: I think we're going to begin, and I apologize for this slightly late start, but as -- as always, there's just a little bit of unforeseen circumstances.

But I'm sure we'll catch up as we go throughout the day.

And good morning. My name is Don Hammond. I'm the Deputy Fiscal Assistant Secretary of Treasury, and I'd like to welcome you to this, our fourth hearing on EFT 99, which is the conversion process of making all Federal payments electronically by January, 1999.

We appreciate your interest in this important initiative, and we look forward to hearing the comments and the insights from all our panelists today.

In fact, we have a very full agenda, which is going to be, certainly, but that's the kind of hearing that we've had throughout the process, and we really welcome the initiative, I believe of the

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1 California Reinvestment Coalition in encouraging us to
2 hold it here in Los Angeles.

3 In writing the proposed regulations, the
4 Treasury Department met with numerous interested
5 parties, both financial services consumer
6 organizations, as well as interested political
7 entities.

8 We -- we've -- done this in the -- with the
9 intent of trying to gather as much perspective and
10 background for the process so that we can have the
11 proper insights, and the proper accommodations for
12 going forward with our regulatory process.

13 And in putting these Government proposed
14 regulations, we've made every attempt to adhere to four
15 basic principles.

16 Like many of you, I referred to it a number
17 of times, but always keep going back to it yet again.

18 The transition to EFT should be
19 accomplished for the interest of recipients who are of
20 paramount importance.

21 Our policy is to maximize private sector

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1 competitions for the business of handling Federal
2 payments, so that recipients not only have a broad
3 range of payment options, but also receive their
4 payments at reasonable cost with substantial consumer
5 protection, and with the greatest possible convenience,
6 efficiency and security.

7 Recipients, and especially those having
8 special needs, the elderly, individuals with physical
9 disabilities, those living in remote or rural
10 communities should not be disadvantaged by the
11 transition to EFT.

12 And the EFT 99 program is to bring
13 recipients without bank accounts into the mainstream of
14 the financial system.

15 With these criteria in mind, I would again
16 like to stress how essential your input is today, and
17 throughout out comment period, and again next Tuesday,
18 the 16th.

19 Because once we are done, we hope to write
20 the final regulations with a fair, practical and serve
21 the interests of all involved.

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1 Procedurally, here's the way today's
2 hearing is going to move forward. There will be five
3 panels of which the first three panels will be
4 comprised of individuals representing consumer issues
5 and community issues.

6 The fourth and fifth panels will cover
7 financial services. As a reminder, each individual
8 testimony should be 10 minutes or less, and after each
9 panel is complete, the Government panel will ask
10 questions to the panelists so that we can further
11 understand their concerns.

12 Also, for your information, the Court
13 Reporter will record this entire section of the meeting
14 to document in today's hearing.

15 Hopefully, within two weeks of the hearing,
16 the testimony will be posted on Treasury EFT web page
17 for public review and information.

18 Before I turn over the microphone, I would
19 like to make a couple comments. First, I think I've
20 messed up the order the Panelists this morning.

21 There's been some changes -- some

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1 shuffling, and I apologize, since -- since I put my
2 notes together.

3 In addition, I'd like to thank the Federal
4 Reserve Bank in San Francisco, and the LA Branch
5 particularly for accommodating us today for this
6 wonderfully -- for this hearing.

7 And I would also like to introduce the
8 other Government panelists that are with me this
9 morning.

10 To my immediate right is Treasury
11 Department's Larry Stout, who is the Assistant
12 Commissioner of Federal Finance and Financial
13 Management Services.

14 To his right is Bettsy Lane, who is the
15 Director of Cash Management Directorate and Financial
16 Management Service, and she will be our moderator
17 today.

18 To my left, and to my far right, he's from
19 the Department of Veterans Affairs, Bill Shelton the
20 Associate Deputy Assistant Secretary from the Office of
21 Financial Operations.

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1 To my right and in the middle from the
2 social Security Administration is Tom Staples,
3 Associate Commissioner for Financial Policy and
4 Operations.

5 To my immediate left is Sheila Leiter, Los
6 Angeles Area Director of the Social Security
7 Administration.

8 Now I'd like to proceed and I'd like to
9 welcome our very special guest this morning,
10 Congresswoman Maxine Walters -- Waters, from the 35th
11 Congressional District.

12 And I apologize. My tongue seems to be
13 playing tricks on me. She sits on the House Banking
14 and Financial Services Committee, and has been a very
15 interested observer of the process that we're going
16 forward with the EFT 99.

17 At that point, I'd I will hand over the
18 microphone the Bettsy Lane, who will have a few
19 administrative announcements to make and who will --

20 MS. LANE: Thank you, Don. Actually, I
21 think you've covered most of the administrative

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1 announcements I had.

2 My job is going to be to introduce the
3 panelists and to keep the hearing on track. So at this
4 time, Congresswoman Walters -- Waters.

5 You've got me doing it. Congressman Waters
6 -- Congresswoman Waters.

7 CONGRESSWOMAN WATERS: Thank you very much.
8 I'd like to thank the Department of Treasury for
9 holding this regional public hearing on the Electronic
10 Funds Transfer 1999 program -- or EFT 99 as it is
11 popularly known.

12 I am pleased that representatives from the
13 Department of Treasury as well as from the Department
14 of Veterans Affairs and the Social Security
15 Administration are in attendance today to hear the
16 testimony of the panelists today.

17 I look forward to the opportunity to share
18 with you some of my thoughts regarding the proposed
19 regulations for implementation of this program.

20 A great challenge faces us as public policy
21 makers as we move towards an increasingly paperless

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1 banking system.

2 Of particular interest to me are the equity
3 and access issues for those who have not had a
4 relationship with traditional banking institutions.

5 The implications of the Congressional
6 mandate that all Federal payments be received
7 electronically by January 1, 1999 for the Federal
8 Government are tremendous.

9 Not only does the Treasury Department face
10 the enormous task of administering this shift from
11 paper to electronic delivery, but also of reaching the
12 millions of unbanked recipients who will be affected by
13 this change.

14 Many critical fairness issues are raised by
15 this mandate.

16 While the focus of my comments will be on
17 the provisions of the regulations that effect those
18 recipients who do not have bank accounts, I will offer
19 a few comments on the regulations as they relate to the
20 already banked population.

21 While I was very pleased to see that the

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1 Treasury Department included a waiver provision in the
2 proposed regulations that will allow recipients to
3 continue to receive their checks in the mail, I would
4 like to see the scope of the waiver provision
5 broadened.

6 As it stands now, any person who
7 voluntarily opens an account with a financial
8 institutions after July 26, 1996 will be barred from
9 requesting a waiver based on hardship due to physical
10 disability, geographical -- geographic barrier, or
11 financial hardship.

12 Individuals should never be prevented from
13 making the determination that they are in need of a
14 waiver.

15 For example, it must be clearly stated that
16 individuals who find that the cost of maintaining an
17 account with a financial institutions, when they find
18 that it is prohibitive they be allowed to apply for a
19 waiver, as well as with the circumstances such as
20 physical disabilities or geographic barriers.

21 In 1996, out of 850 million payments made

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1 by the Treasury Department, only 53 percent were
2 electronically.

3 Currently, it is estimated that 10 million
4 recipients of Federal benefits do not have bank
5 accounts where benefits can be electronically
6 deposited.

7 Additionally, many recipients are senior
8 citizens who have become accustomed to receiving checks
9 in the mail, and may not be familiar, or comfortable,
10 with electronic banking.

11 One of the most difficult issues that the
12 Treasury Department has been grappling with is how to
13 serve this unbanked population.

14 Underlying my views on this issue is a
15 belief that the EFT 99 program gives us an opportunity
16 to bring these persons into the banking mainstream.

17 Part of helping people become more
18 independent and successful in society is to give them
19 access to the financial goods and services that we all
20 use to manage our finances.

21 I want to stress how important it is that

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1 we use this opportunity to provide the most complete
2 and comprehensive banking services that we can at each
3 step of the way.

4 Recipients who do not have bank accounts
5 are being encouraged to voluntarily open up bank
6 accounts prior to January 1st, 1999.

7 It is important that in the Government's
8 rush to get recipients banked, that we do not push
9 individuals into relationships with financial and non
10 financial institutions that are uneconomical and
11 inadequate.

12 I'm particularly concerned about a number
13 of critical issues, including the provision of low cost
14 banking services, and the adequate oversight and
15 regulation of the financial and non financial
16 institutions which receive payments electronically.

17 I want to encourage the Treasury Department
18 to work closely with the banks to create simple, low
19 cost accounts that recipients may use.

20 During the recent mark up of the financial
21 modernization bill in the Banking and Financial

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1 Services Committee, I was able to get a lifeline
2 banking amendment included that would require banks to
3 provide low cost banking services.

4 I think that we should use this opportunity
5 to convince the banks to provide these accounts.

6 The Treasury -- a commentary on the
7 proposed regulations indicates that the Department will
8 likely interpret their underlying law to mean that the
9 accounts that individuals create voluntarily are not
10 subject to any cost control.

11 This is, despite the laws, clear language
12 that all electronic accounts must be provided at
13 reasonable cost, and are given the same consumer
14 protections as other account holders at the same
15 financial institutions.

16 We must set out basic standards that
17 institutions handling these electronic accounts are
18 required to follow.

19 The fees of individuals are subject to --
20 or subjected to must not be excessive.

21 Whether it is a financial institution or a

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1 check cashing business, no one must be allowed to gouge
2 the consumer.

3 I have an example of just the kind of
4 situation that I'm worried about.

5 I have a flyer here distributed by BankOne
6 to check cashing outlets. The banner reads, "Don't
7 lock customers out of your store."

8 It goes on to inform the check cashing
9 businesses who fear that they may lose business as a
10 result of EFT 99 that through BankOne's direct deposit
11 plus, that the check cashing businesses can sign up
12 their clients for an account at BankOne.

13 Then the customer will receive their checks
14 at the check cashing outlet.

15 Now that sounds a little cumbersome, but
16 what I'm suspecting is that regular customers of check
17 cashers who are signed up for these accounts would be
18 subject to BankOne fees -- \$12 per year plus a \$2.95
19 monthly disbursement fee, as well as the fees regularly
20 charged by the check cashing outlets to check -- cash
21 the checks often anywhere between 3 and 10 percent of

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1 the value of the check.

2 Now, between BankOne and the check cashing
3 outlets, this is a nice little scheme, but it's not
4 right. It's outrageous.

5 Only 14 states even limit the amount the
6 check cashing outlets can charge to -- to cash
7 Government checks.

8 So this is the very kind of thing that we
9 don't want to see our clients subjected to.

10 These kinds of advertising schemes will
11 only become more abundant as the financial and non
12 financial institutions take advantage of this push to
13 bank recipients.

14 A set of standards should be created that
15 will determine the fees that will be allowed, clear and
16 simple.

17 Those who wish to receive these payments
18 can choose to abide by these regulations or forgo the
19 opportunity to bank these recipients.

20 I mean that's a pretty tough line, but I
21 don't think that the tax payers are providing these

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1 grants through the laws that have been created to do
2 this.

3 And the payments that people have coming to
4 them, to have them substantially ripped off, and not
5 receive the benefit of them, and that's what I want to
6 protect against.

7 It is also important to ensure that a broad
8 range of financial and non financial institutions have
9 the opportunity to compete for the business of these
10 consumers.

11 I hope that the Department will make sure
12 smaller financial institutions are not shut out of the
13 EFT 99 market.

14 Community banks have played a critical role
15 in serving low income communities, often when other
16 larger institutions would not.

17 Outreach materials developed for recipients
18 should outline the full range of banking options
19 available to them, and should include mechanisms that
20 help small banks and savings and loans bank these
21 individuals.

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1 I also think the kinds of non financial
2 institutions allowed to compete for the businesses of
3 these consumers should not be limited to check cashing
4 businesses and money remitters.

5 In my estimation, non profit organizations
6 serving these clients should also have the ability to
7 serve a similar function in providing recipients with
8 these funds.

9 These non profit organizations may often
10 already have a relationship with recipients where
11 they're providing a benefit or a service.

12 They shouldn't -- why shouldn't the non
13 profits be able to offer this service and garner some
14 of the monetary benefit at a fair cost being derived
15 from non financial private enterprises.

16 The Federal Government cannot abdicate its
17 responsibility to protect recipients from hard sells
18 and unscrupulous institutions.

19 Not only it is -- is it a public policy
20 imperative, I also think an interpretation of the law
21 that would allow this to go on unregulated would also

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1 subject the Federal Government to litigation.

2 We should not shift our responsibilities to
3 implement the spirit and letter of the law.

4 Under the law that Congress passed in 1996,
5 Treasury is required to provide all recipients with
6 access to an account where they can receive their
7 benefits.

8 As you know, the Treasury Department's
9 proposed regulations propose the creation of an
10 Electronic Transfer Account, or ETA for those persons
11 who do not have a bank account by January 1st, 1999.

12 Recipients without accounts or who have not
13 applied for a waiver will be given these accounts.

14 As it -- as it relates to these ETA
15 accounts, the proposed regulations leave much detail to
16 be developed.

17 It is important to remember that this
18 government provided account will be the product most
19 directly associated with the Federal Government.

20 It is critical that any account created by
21 the Treasury Department will give recipients a range of

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1 banking services at low or no cost.

2 I am strongly opposed to any ETA account
3 that gives recipients access to their money solely
4 through the use of ATM machines.

5 The elderly and infirmed should not be
6 forced to use ATM machines, many of which are exposed
7 to the elements and unsafe -- to the elements and
8 unsafe for all of their cash withdrawals.

9 We also must ensure that those who are
10 assigned these accounts do not incur excessive ATM and
11 point of sale fees.

12 I appreciate all the hard work that the
13 Treasury Department have done to get at this point. I
14 hope that as you propose final regulations for this
15 program, that you will incorporate my views and the
16 views of the others.

17 I stand ready to help you in any way I can
18 to make this program a success and a Government program
19 that the American people can be proud of.

20 Let me just reiterate in my closing that as
21 we move toward getting rid of marginalization,

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1 discrimination, all of that in our society, we must be
2 careful with whatever we do that we don't create two
3 tier systems.

4 I'm not going to suffer recipients standing
5 outside of anybody's bank in the rain, in the cold not
6 able to go inside that bank, and be relegated to
7 standing in line to use those services.

8 If they don't want these clients in the
9 bank, then don't take the business. We're not going to
10 allow to -- us to create a two tier systems for the
11 convenience of anybody.

12 I think that the banks should think about
13 how to expand services to the community, and create
14 more banking opportunities to people, and make
15 legitimate profits.

16 I'm not against that. But if you don't
17 want the clients in the bank, you don't welcome them
18 there, then don't take this money, because I'll be the
19 first one to lead a lawsuit against that.

20 Thank you, very much.

21 MS. LANE: Thank you, Congresswoman Waters.

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1 The Congresswoman has agreed to take some clarifying
2 questions from the Government Panel.

3 Do any of the Panelists have questions?

4 MR. HAMMOND: I had one.

5 MS. LANE: Mr. Hammond?

6 MR. HAMMOND: Representative Waters, I
7 wanted to follow up a little bit on the concept of the
8 ETA account, and specifically ask you as to whether or
9 not what your views might be either now -- or in the
10 future.

11 You know, as you have time to reflect on
12 it, if the ETA account were to be available to all
13 recipients of Federal payments as opposed to just being
14 available to those who would be unbanked as of some
15 point in time, what your perspective might be on that
16 type of arrangement?

17 CONGRESSWOMAN WATERS: Well, I've thought
18 about it just a little bit, and again, whatever we do,
19 what I would like to avoid doing is creating classes in
20 any way.

21 So if those who go out and select their

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1 banks early on becomes one class, and then those who
2 get the ETAs later on become another class subjected to
3 different regulations, different advantages, and
4 different dis -- disadvantages, I'm opposed to it.

5 I'd like to see us deliver services to
6 people in ways that everybody can reasonably expect
7 that they have some protections from their Government,
8 that they're being serviced in ways that they won't be
9 gouges, that we're all in this together, and that the
10 services should be delivered to both classes -- to
11 everybody rather than creating classes of sorts.

12 MR. HAMMOND: Thank you, very much.

13 CONGRESSWOMAN WATERS: You're welcome.

14 MR. STAPLES: Congresswoman?

15 CONGRESSWOMAN WATERS: Yes.

16 MR. SHELTON: Obviously you've thought a
17 lot about this, and could you lay out a model of how
18 you think it should work for the unbanked?

19 CONGRESSWOMAN WATERS: What I would like to
20 see, first of all, is access. I would like to see this
21 limited to -- for example -- the big banks who have the

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1 power and the ability to lobby and to talk about how
2 they can provide services that are more convenient to
3 the Treasury Department.

4 When we look at how people provide
5 services, we know that if you have a lot of money, and
6 you're sophisticated, you can present the best response
7 to request for proposal, and even design how our
8 Government must do it.

9 But we must not allow that to happen. We
10 must have access not only through the traditional
11 banks, but to other kinds of outlets.

12 I have -- in the past -- been very
13 concerned about check cashing operations, but I'm not
14 anymore as it relates to this, because I know people
15 use them.

16 All I don't want them to do is gouge. I
17 don't want them to be able to cause people to have to
18 pay.

19 Let them do it, and let others do it, and
20 if you have systems where you have machines that can --
21 can do it, and post offices, for example, let's have as

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1 much access as we possibly can.

2 That would be my number one consideration.
3 The number two consideration would be these kinds of
4 low cost accounts, or life time accounts where you can
5 have an account where you're not subjected to all of
6 the expanded banking fees.

7 They have operations who create ways by
8 which to create more fees, and fees have become income
9 generating for banks.

10 And they have a whole array of things, and
11 more are being created. I just saw on television last
12 night with -- with the credit cards.

13 If you don't use your credit card in a
14 certain period of time, another fee. If you close out
15 your account, another fee.

16 Well, I learned a lot about fees, because
17 I introduce bills to try to have a freeze on fees that
18 everybody thought that I was crazy about -- about two
19 or three years ago.

20 But there's this proliferation of fees, and
21 I don't want to see these accounts taking food out of

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1 the mouths of the elderly and veterans, paying fees to
2 banks to generate more income.

3 That's another kind of concept that I'd
4 like to see built in. And then again, I do know that
5 we have some of our banks who's saying, "I want the
6 business. I want to make money, but don't clutter my
7 lobby with all of these people who may get in the way
8 of my more substantial bankers here."

9 "Let's put them on the outside, or let me
10 make some money and pawn it off to the check cashing
11 operations or the remitters -- someone else to actually
12 service the people that have been going there."

13 "I'll help make it convenient for these
14 check cashing operations, or others who may not be able
15 to do business with the Government in the same way that
16 I do, but then they will take care of the riff-raff
17 when they come in, and they won't be in my face."

18 Those are kind of my general concerns about
19 how we do this. There may be other things that I have
20 not thought about, but I think that's my basic -- those
21 are my basic concerns.

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1 MR. STAPLES: May I ask one question?

2 CONGRESSWOMAN WATERS: Yes.

3 MR. STAPLES: In the Social Security
4 Administration, we currently pay to about 50 million
5 people in the regular social security program and the
6 SSI program.

7 Some 32 million are paid electronically.
8 About 18 million are not, and we expect the -- the
9 number to be paid by paper check to decline perhaps
10 from 18 to 15 million or so by January 1st, 1999.

11 This still leaves us with a sizeable paper
12 check population. We do not know how many of those may
13 request waivers, but we expect it should a significant
14 work load to the agency.

15 One of the questions I'll be asking each of
16 the panels today, is have they any thoughts on how we
17 should handle that waiver administration program for
18 this large amount of people.

19 So, since you were here first.

20 CONGRESSWOMAN WATERS: Yes, I would like
21 for you to be very generous in your waiver

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1 consideration for senior citizens.

2 I would like you to think about this
3 population of the unbanked -- of people who have
4 developed ways by which they do their business.

5 Many of them are not very sophisticated.
6 Many of them are handicapped. Many of them have fears.
7 I'd like you to be very generous.

8 If Ms. Jones is accustomed to receiving
9 that check, and every month at the certain time her
10 relative comes to pick her up to do her business in a
11 certain way, and she's comfortable with that, and they
12 deliver her back home, and she's not standing in line,
13 she's not been dealt with by clerks who think she's
14 stupid, she's not been asked to fill out forms that she
15 won't be able to fill out, I'd like you to protect her.

16 And it really does not make any difference
17 whether all 15 million of those fall in that category.
18 Leave them alone and let them bank in the way that they
19 understand.

20 Maybe we can transition out of that as
21 banks and others take significant responsibility and

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1 come up with creative programs by which to get out to
2 senior citizens' homes and places where large
3 concentrations of senior citizens are, and begin to
4 teach them and involve them, and bring them in, or
5 develop systems that outreach into retirement
6 communities.

7 Maybe we can transition out of that, but
8 until then, waiver them. Be very generous with them.

9 MS. LANE: Other questions?

10 CONGRESSWOMAN WATERS: Thank you, very
11 much.

12 MS. LANE: Thank you. We will take a brief
13 break to set up the next panel.

14 (Whereupon, at 10:05 a.m., a brief recess
15 was taken.)

16 MS. LANE: We're ready to get started with
17 our first panel. Let me introduce the panelists, and
18 then if -- when you begin testifying, if you would re-
19 introduce yourself for the purposes of the Court
20 Reporter, we thank you.

21 The first witness will be Alan Fisher,

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1 who's with the California Reinvestment Committee.

2 The second witness will be Paul Hudson,
3 who's with Broadway Federal Bank in Los Angeles.

4 The next witness will be John Bryant. He's
5 with Operation Hope.

6 And the final witness in this panel will be
7 Leonard Randolph, who is with the East Palo Alto
8 Community Alliance and Neighborhood Development
9 Organization.

10 Mr. Fisher?

11 MR. FISHER: Thank you. I'm Alan Fisher
12 from the California Reinvestment Committee. Thank you
13 all for coming to California.

14 The California Reinvestment Committee is a
15 statewide membership organization with more than 180
16 California non-profits and public agencies.

17 We began in 1986, and have ongoing sealed
18 relationships with major California financial
19 institutions.

20 A critical issue for us has been, and is,
21 access to capital, but also access to lifeline checking

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1 accounts and savings accounts -- low or no cost basic
2 accounts for people with low incomes.

3 And we hope that EFT can be a new
4 opportunity for those currently without accounts.
5 First from a -- a personal side, let me make clear that
6 I've had a personal computer since 1980.

7 I love technology. I think it's a
8 wonderful thing, but it's a neutral thing. And I
9 thought when I was young that this would be something
10 that would allow the world to be a global village, and
11 people to work 20 or 30 hours a week, and be able to
12 enjoy the rest of their lives.

13 And instead, in banking and elsewhere, it's
14 been used for what's called efficiency. That
15 efficiency has meant fewer jobs and programs, which
16 make access to banking limited to those who have
17 technological understanding and can afford the
18 equipment to be able to make that linkage.

19 While we appreciate the general principles
20 that you put forward, I think from our point of view,
21 it's kind of like the Government decided to save \$100

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1 million annually by using Electronic Funds Transfer.

2 And the issues of what this was going to
3 mean are still being worked out for people, and that's
4 very -- of high concern to us.

5 And that's -- of course, aside from what
6 would be my guess are the thousands of people who are
7 losing their jobs in this money saving process.

8 We think it potentially has a strong
9 possibility of tremendously complicating lives for
10 millions of seniors, disabled, low-income people,
11 unless it's really implemented correctly.

12 This means that there needs to be real
13 public education, flexible waivers, real world bank
14 accounts, and continuing oversight.

15 Our concern that the Treasury Department
16 does not have full understanding was highlighted for me
17 in July when I was in Washington, D.C., and heard the
18 Booze Alan research which ignored those that didn't
19 have phones, and those who didn't speak English.

20 It was further heightened, which I'm glad
21 to see you corrected when Treasury evidently thought

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1 that Dallas, Texas was the western extent of the United
2 States, which it has not been since the mid-19th
3 century.

4 Welcome to California, the state of roughly
5 30 million people, where more than 10 million people
6 speak languages other than English at home; and to Los
7 Angeles, where the 1990 Census found 400,000 households
8 that were considered linguistically isolated.

9 The County of Los Angeles recognizes
10 several dozen languages in its hospitals, so that its
11 residents get good medical care.

12 Clearly this means that issues of language
13 and culture must be considered by Treasury as it
14 implements EFT 99.

15 In addition, geography needs to be
16 carefully considered, because rural recipients have
17 considerably different situations than those in urban
18 areas.

19 EFT can be an opportunity for the 10
20 million recipients who are unbanked and outside the
21 mainstream economy now.

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1 The question for Treasury needs to be --
2 needs to be, what are the basic needs of your fellow
3 human beings who are affected by EFT 99?

4 For those who can use Electronic Funds
5 Transfer, what can the Federal Government do to make
6 this program work for them easily and bring them into
7 the financial mainstream?

8 For those for whom EFT 99 adds a major
9 burden, how do I --

10 MS. LANE: Maybe try the next mic.

11 MR. FISHER: Alright. I don't know that I
12 need a mic. For those for whom EFT 99 adds a major
13 burden, how can the waiver work easily and flexibly?

14 What can the Federal Government do, even if
15 it takes some of the \$100 million in savings, to be
16 sure that this program works for those who are entitled
17 to this money?

18 First, the position of the California
19 Reinvestment Committee, is that no bank should be
20 allowed to be a transfer agent for EFT, and reap the
21 income if they systematically pass the recipients on to

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1 check cashers.

2 Well, we do not formally believe that check
3 cashers have a direct relationship with Beelzebub, they
4 overcharge customers, and leave those customers with no
5 mark in the financial mainstream -- that they even
6 exist -- that they have income, or that they're worthy
7 of financial attention and credit.

8 While recipients had checks, they could
9 take them anyway, even to open a bank account. Once
10 EFT is implemented, it will be much more difficult to
11 transfer or open a new account.

12 So Treasury bears a serious burden to be
13 sure that options are open, and bank accounts work for
14 all recipients, so that those now without accounts are
15 not condemned to an edge world beyond the financial
16 mainstream.

17 Many banks now have lifeline accounts that
18 have many of the features that recipients should be
19 able to find in the future ETA account.

20 These accounts have minimum balance
21 requirements as low as one dollar, usually offer seven

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1 to ten checks to be written monthly, they take deposits
2 from any source.

3 Unfortunately, these accounts often cost
4 350 to 450, although many are free, now with direct
5 deposit.

6 They often have large punitive fees for
7 writing -- for over-writing checks as well. Clearly
8 these costs and fees are a problem for folks who have
9 little money left at the end of the month, and many
10 people avoid banks because of these costs and fees, as
11 well as the perceived inflexibility of accounts, and
12 the fact that banks give the message that they don't
13 want them in their lobbies.

14 CRC has always fought for banks that have
15 and keep lifeline accounts; however banks often hide
16 the accounts in their marketing brochures, and do not
17 tell new customers about them.

18 One of our staff went to more than a dozen
19 different banks' branches last spring to ask and see if
20 they were marketing their lifeline checking accounts.

21 In every one, she had to ask about the

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1 account. She was not told, even though she said what
2 sort of financial condition that she was in -- which
3 was not true, we pay her well.

4 An additional example in this vein from our
5 view are ATMs. At first they were free. Now many
6 people are being charged twice for their use.

7 We believe that these circumstances require
8 that the Treasury Department monitor, at least
9 annually, the banks that recipients have accounts at,
10 particularly those which have the ETA accounts.

11 In addition, we believe that all accounts
12 of EFT recipients should have at least the minimum
13 features of the ETA account.

14 So what does CRC think the ETA account
15 should look like? And of course, I -- I think that
16 there are bank accounts now which are very close, and
17 it would be preferable, as the Congressman was saying,
18 not to have a special account, but to have banks
19 measure against the ETA account, and have that be what
20 was accessible to people.

21 We think that certainly a major component

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1 of this account should be a debit card so that the --
2 there can be access to ATMs at point of sale.

3 But just electronic access is not enough,
4 both for issues of personal safety, and the cash
5 economy that a lot of recipients live in.

6 If people are carrying the money for the
7 rent, they're open to safety concerns. So this account
8 needs to include either a check writing, or a money
9 order function in order to be really effective.

10 Since most direct deposits -- are now --
11 accounts are now free, we believe it's logical and
12 necessary that this account also be free.

13 In addition, it needs to accept other
14 deposits than EFTs, so that it's truly usable by the
15 account holder, and have an option for a savings
16 feature.

17 The savings account can be potentially used
18 as an individual development account, as is happening
19 in a lot of welfare reform efforts around the country.

20 All these accounts held by the recipient
21 should have at least these basic features. They take

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1 some of the projected savings to make those things
2 happen, that we believe that's the responsibility of
3 the Government.

4 We see this as a CRA opportunity for the
5 banks. And again, these don't necessarily need to be
6 new accounts.

7 There could be a template of what the --
8 what needs to be the basic account that banks are
9 required to honey up to -- that models for the banks
10 what things should look like.

11 So I want to thank you, very much, for the
12 opportunity, and for you holding the hearings. I
13 brought with us some of our newsletters which have some
14 specifics on accounts that now exist.

15 Thank you.

16 MS. LANE: Thank you, Mr. Fisher. I'm
17 going to ask that we listen to the statements of the
18 rest of the witnesses before proceeding to questions
19 from the Government panel, so, Mr. Hudson?

20 MR. HUDSON: Good morning. I am Paul
21 Hudson, President and Chief Executive Officer of

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1 Broadway Federal Bank in Los Angeles, and Vice Chairman
2 of the American League of Financial Institutions in
3 Washington, D.C., also known as ALFI.

4 ALFI is a national trade association
5 chartered in 1948 to represent the legislative and
6 regulatory concerns of African American, Hispanic
7 American and Asian American savings banks and savings
8 and loans.

9 There are currently 41 such financial
10 institutions nationwide. They represent 6.2 -- 6.2
11 billion in assets, with 109 branches, and approximately
12 1,200 employees.

13 Broadway Federal Bank is a publicly traded
14 African American managed savings bank which has
15 operated in South Central Los Angeles since 1947.

16 Broadway has assets totalling \$126 million,
17 with four branches and 51 employees. Broadway, and the
18 members of ALFI serve predominantly low to moderate
19 income-urban communities.

20 The communities which we serve had a large
21 number of federal payment recipients, and also have a

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1 disproportionate number of individuals who do not have
2 an account with a financial institution.

3 I shall -- I shall refer to this latter
4 group as cash consumers. As a result of the
5 demographics of our markets, we have a keen interest in
6 the impact and the implementation of the proposed rule.

7 We are aware that EFT and the direct
8 deposit program have the affect of improving security,
9 privacy and safety for check recipients, and reducing
10 the costs -- the distribution costs to the Federal
11 Government.

12 But we encourage you to consider the
13 following issues prior to implementation. Treasury is
14 considering various approaches to implementing the
15 requirement that an EFT account be provided to cash
16 consumers.

17 We recommend a voluntary program in which
18 financial institutions interested in offering the
19 account may participate in lieu of Treasury selecting
20 one or more financial -- Federally insured financial
21 institutions to act as Treasury's financial agent.

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1 I could talk all day about this issue, but
2 I'm going to go on. Treasury's concerns regarding
3 identifying institutions willing to participate, and
4 monitoring their activities would not require the
5 creation and maintenance of a regulatory -- a new
6 regulatory infrastructure.

7 Federally insured institutions in good
8 standing, as determined by annual Federal examinations,
9 would self -- would self select themselves by notifying
10 Treasury of their interest in participating.

11 Monitoring compliance with the terms of the
12 structured EFT account would be a part of regular
13 compliance, and safety and soundness examinations.

14 This approach would enhance consumer
15 choice, and encourage market competition, which would
16 ensure -- which would help ensure cost reasonableness.

17 On the other hand, selection of one or more
18 financial agents would wholly -- would be wholly
19 inappropriate for the following reasons.

20 Treasury noticed that consumer
21 organizations strongly urge that only Federally insured

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1 financial institutions act as agents to ensure consumer
2 protection and cost reasonableness.

3 Yet, the use of a select few financial
4 agents would require the use of third party non-
5 financial institutions in order to ensure convenience
6 and accessibility.

7 Such 30 -- third party participants are the
8 very entities which consumer organizations sought to
9 avoid.

10 Such an outcome is implied in that Treasury
11 has commented that the designated financial agent will
12 perform those functions that include the disbursement
13 of public funds, including the establishment of the
14 recipient's account, and crediting the Federal payment
15 to the account.

16 Providing access to the funds, payment of
17 bills, and other financial services would be performed,
18 or allowed to be performed by non-financial
19 institutions working partnership with the financial
20 agents.

21 That's the bank one example that

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1 Congresswoman Waters provided. This approach allows
2 large money center -- large money center banks to
3 benefit from the EFT ACT, without incurring the assumed
4 risk of providing convenience, access to funds, and
5 other financial products and services.

6 Nor does such an approach accomplish the
7 goal of moving consumers into the mainstream of the
8 financial system.

9 We believe that if consumer protection,
10 convenience, and cost reasonableness cannot be assured,
11 the provisions of Section 208.5, which provide for
12 access to an account by cash consumers, and those that
13 fail to provide information pursuant to 208.8, be
14 interpreted as voluntary.

15 Individuals covered by Section 208.5 should
16 not be required to open such accounts for the following
17 reasons.

18 The Social Security Administration reports
19 that 76 percent of the new social security and SSI
20 recipients are receiving payments by EFT.

21 Just by virtue of natural attrition and

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1 increased efforts to educate consumers, over time there
2 will be increased use of EFT and direct deposit.

3 One of Treasury's stated goals in
4 implementing the EFT Act is to make certain that
5 recipients have access to their funds and reasonable
6 costs.

7 One quantifiable basis for establishing
8 reasonableness, would be to require that EFT accounts
9 cost less than current check cashing costs.

10 Treasury should not require consumers to
11 pay more to receive payments electronically. Financial
12 institutions argue that cost reasonableness is a
13 function of the cost to provide a particular service or
14 product, plus profit.

15 And the costs vary by institution and
16 market. It would be extremely difficult, if not
17 impossible to structure an account as structured below
18 -- I'm going to give you the structure -- which meets
19 the needs of cash consumers is reasonably priced, is
20 accessible to recipients without the use of third party
21 arrangements, and is profitable to financial

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1 institution providers.

2 Another stated goal of Treasury is to
3 provide recipients with appropriate consumer
4 protection.

5 Treasury cannot provide appropriate
6 consumer protection to recipients who are forced to
7 access Federal payments from unregulated third party
8 non-financial institutions.

9 Finally, it is a stated goal of Treasury to
10 -- to deliver Federal payments to recipients
11 conveniently.

12 Within the current financial system,
13 financial institutions cannot assure the accessibility
14 and convenience in underserved markets without seeking
15 the participation of third party non-financial
16 institutions.

17 Such an outcome would raise regulatory
18 issues of safety and soundness, and cost
19 reasonableness.

20 Underserved communities, by definition, are
21 ones without adequate number of service facilities

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1 including financial institutions.

2 All financial institutions seeking to offer
3 Section 208.5 accounts should be required to provide a
4 distribution plan for cash consumers in underserved
5 communities, which does not require the use of third
6 party non-financial institution persistence, or
7 exclusive use of ATM access.

8 An example of such a strategy is a pilot
9 program initiated by Broadway Federal Bank in alliance
10 with Nick's check cashing.

11 In July of this year, Broadway opened an
12 in-store satellite banking center in a mix-check
13 cashing store located in South Central Los Angeles.

14 The objective of the strategic alliance is
15 to provide cash consumers with access to any
16 information concerning traditional bank products and
17 services, and to facilitate the implementation of the
18 EFT Act.

19 The alliance affords the bank a cost
20 efficient vehicle to provide increased accessibility to
21 cash consumers, and the bank's traditional custom base.

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1 A majority of the -- of the approximately
2 30 new accounts per month are direct deposit. We
3 recommend that any basic EFT account that is provided
4 include the following characteristics, and that
5 financial institution providers be mandated to conform
6 to the criteria listed below.

7 Debit cards should be available, but not
8 required. Cost of the account to the recipient should
9 be a most important factor.

10 Account structures should be geared to the
11 basic withdrawal at the lowest possible costs. Minimum
12 of four withdrawals should be included in the basic
13 account.

14 Account terms should address ATM charges
15 imposed by other institutions other than the account
16 provider.

17 Account structures should provide for
18 additional electronic deposits of at least four.
19 Accounts should provide for third party payments.

20 Accounts should include a savings feature.
21 Physical distribution sites should exist within close

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1 proximity to account holders.

2 If none exist, plans to add distribution
3 outlets should be included in the response for
4 proposals.

5 Third party non-financial institutions
6 should not be allowed to participate in the delivery of
7 services to the Federal -- to Federal payment
8 recipients for the same safety and soundness -- for the
9 same safety and soundness reasons that non-financial
10 institutions were not included as distribution outlets
11 within the Rule.

12 In implementing the EFT Act, Treasury seeks
13 to bring into the financial mainstream the 10 million
14 cash consumers who receive Federal payments, and who
15 currently do not use the financial system to receive
16 funds, make payments, save, borrow or invest.

17 Bring cash consumers into the financial
18 system -- before bring cash consumers into the
19 financial system, Treasury should evaluate the
20 financial system environment, and the receptivity of
21 the system to include cash consumers.

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1 Cash consumers are characterized by certain
2 transitional habit -- transactional habits which
3 include a preference for in-person transactions, check
4 cashing, cash and money order purchase and payments,
5 and the inability or unwillingness to make deposit --
6 maintain deposit balances.

7 Such transactional habits run counter to
8 the direction which financial institutions are
9 encouraging consumers to move, and thus have associated
10 with them higher fees and costs.

11 That EFT 99 may transition cash consumers
12 from cashing Federal checks for a fee to establishing
13 EFT accounts which incur excessive bank charges for
14 unprofitable transactional habits.

15 Treasury should not mandate an option which
16 benefits the Government at the consumer's expense. The
17 Government's distribution costs are in effect being
18 transferred to the -- cash consumers the increased --
19 the increased bank charges.

20 Finally, you should realize that by
21 mandating receipt of Federal payments by Electronic

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1 Funds Transfer, you are forcing cash consumers to enter
2 a hostile banking environment, and to utilize a
3 financial system that has been unresponsive to their
4 financial needs, and that has not adequately served low
5 income markets.

6 Therefore, I strongly encourage you to
7 address changes to the financial banking system before
8 mandating its use.

9 Thank you.

10 MS. LANE: Thank you, Mr. Hudson. I remind
11 the panelists to please use the microphones. The Court
12 Reporter can't hear if -- if you don't. Mr. Bryant?

13 MR. BRYANT: Good morning. The copy of my
14 remarks are in the lobby for anybody who would like to
15 have a copy.

16 It's entitled, "High Touch in a High Tech
17 World." To our distinguished guests from the U.S.
18 Treasury Department in Washington, D.C., the bankers,
19 credential professionals, community development experts
20 and concerned citizens gathered here today, I want to
21 sincerely thank you for the opportunity to provide you

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1 with my testimony with regard to the recently passed
2 Electronic Funds Transfer legislation, lovingly called
3 in Washington, EFT 99.

4 I'm the founder, Chairman, and Chief
5 Executive Officer of Operation Hope. Founded
6 immediately following the civil arrest of 1992,
7 Operation Hope is America's first non-profit investment
8 banking organization.

9 With 45 FDIC insured banking partners,
10 several corporate partners including Microsoft and
11 Trans Union, and even Federal Government partners such
12 as the U.S. Economic Development Administration.

13 Operation Hope operates a separate for
14 profit subsidiary, and it is our Operation Hope Banking
15 Center Corporations.

16 Operation Hope and its partners are wholly
17 committed to the social and economic revitalization of
18 our inner city and underserved communities.

19 Likewise, our banking centers, we believe,
20 represent a new model for banking our underserved
21 communities.

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1 Our business is hope, self esteem and
2 opportunity. Our product is economic literacy,
3 economic education, and urban capital and financial
4 access.

5 I believe it's relevant to today's
6 testimony. It has been said, even, that Operation Hope
7 helps people to redeem their can do spirits, and to
8 nurture and grow their individual sense of self in the
9 sometimes unforgiving capitalist world.

10 Yes, we believe in America's inner city
11 communities. We believe that others should also, not
12 only because it's the right thing to do, but because
13 it's in their enlightened self-interest to do so.

14 It has been said that change is sometimes
15 a problem and sometimes an opportunity. Well,
16 historically mainstream America and Wall Street had
17 toyed with the opportunities associated with structural
18 change in our society, while our inner city communities
19 have almost suffocated by the problems.

20 Well, the America of the 21st century will
21 be different, if only because it will be increasingly

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1 ethnically diverse, and we can no longer afford to
2 embrace the opportunities, yet to ignore the problems.

3 Comptroller of the Currency, Eugene
4 Lubbock, refers to it as a democratization of credit in
5 America where he refers also to the Community
6 Reinvestment Act, because they are connected, and so
7 was his legislation.

8 In fact, in the early 1900s, you and I
9 couldn't get a loan. They were called commercial
10 credits.

11 But I believe there's a reason that we
12 should connect these items. Today African Americans
13 and Latinos represent a \$499 billion a year consumer
14 spending force, and a \$365 billion consumer spending
15 force respectively.

16 In 1997 and beyond, CRA will increasingly
17 mean new markets and future profits. I believe that
18 CRA and EFT 99 are, as I said, connected.

19 EFT 99 is legislation we are wrestling with
20 today, is not simply about efficiency and savings. It
21 represents a fundamentally new way for America to do

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1 its business by Americans.

2 The problem in this scenario is our other
3 America. And this time, the architects have changed --
4 you must work hard to -- to draw them into the plans
5 from the start, and this is why I am here.

6 Passed by Congress on September 16, 1997,
7 and effective January 1, 1999, EFT -- EFT 99
8 effectively requires that all Federal payments with a
9 notable exception of tax refunds -- of course you guys
10 will make us get those by mail, be electronically
11 transferred.

12 In theory, EFT 99 is an excellent example
13 of Federal legislative innovation. That was a -- by
14 design -- win, win.

15 It is more secure than current payment
16 methods, and insures prompt delivery of anticipated
17 funds.

18 No more lost checks in the mail, and our
19 big bureaucratic Government takes a giant leap into the
20 information age. Bravo!

21 With countless paper saved, you and I are

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1 further confident in knowing that our children will
2 grow up being able to play in an authentic tree house
3 versus a plastic one.

4 And of course our Federal Government has
5 the opportunity to save, and/or recoup an estimated
6 \$100 million, not to mention the deposit and fee income
7 opportunities available to our banking community.

8 On balance, it seems to be win, win. But
9 in point in fact, I come here today because, while the
10 legislation's ideal objective is win, win, it's company
11 regulation is not -- or shall I say, optimistically not
12 yet.

13 The challenge before us today is not very
14 dissimilar from the -- the problems facing the framers
15 of the Community Reinvestment Act legislation in 1977.

16 How does one provide fair and equal
17 distribution than of loans, credit and financial
18 services in an uneven, and sometimes unfair world?

19 How do we care for the estimated 10 million
20 Americans that are without a bank account living cash
21 and carry lives, facilitated by high cost checking --

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1 check cashing agencies?

2 How do we insure that costs initially low
3 by mandate do not skyrocket unchecked in time, as
4 others have in the past?

5 But there are even larger questions to
6 answer in this regard. How will we be insured the
7 check cashers, which are by nature a repressive
8 business?

9 Every customer you educate and assist is
10 every customer you lose. How do we insure that they
11 will not become authorized in credentialed financial
12 services providers in our inner city communities?

13 How will we incorporate and include entire
14 communities in the information age when the
15 infrastructure they have access to comes from the stone
16 age?

17 How will we keep America's promise of
18 depending on big brother, the Federal Government, less,
19 and local partners, community partners, more without
20 making them full economic partners, and not just public
21 affairs partners?

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1 How can we reasonably rely more and more on
2 banks, as with the case with EFT 99, to be underserved
3 in America's primary delivery mechanism for financial
4 services, when they are quickly transitioning out of
5 their traditional branch networks.

6 While far from perfect, and I even
7 understand the economic modus behind them, the branch
8 -- the local branch, if in fact a underserved community
9 is lucky to have one, represents one of the few
10 workable resources available to people who do not trust
11 easily or quick.

12 Mainstream America loans for the most
13 efficient high tech. Even I pay my regular bills on
14 line these days, but urban inner city and underserved
15 communities require high touch.

16 Technology is great, but it is hard to have
17 a meaningful relationship with an ATM machine. The
18 good news is that answers are within reach.

19 We can create a system with the EFT 99, and
20 like systems to follow, that -- that ride the tide for
21 all ships, as long as it is our intended goal from the

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1 onset -- the solution.

2 The Federal Government has taken a bold
3 move of incorporating the private sector into its
4 regulation, but the resulting service gaps left
5 unfilled between law -- between lawmakers in D.C., and
6 local FDIC insured banks, means that check cashers will
7 only increase in their influence in our underserved
8 communities.

9 There is a role for check cashers, but it
10 is not as America's underserved urban banker. The
11 solution is a three leg stool, which incorporates the
12 Government, the private sector, and community as a
13 powerful and equal partner for change.

14 The solution is an alternative delivery
15 system, not so different from our Operation Hope
16 Banking Center.

17 At our OHBC offices, with one currently
18 located in Central Los Angeles, Hawthorne Savings and
19 Fidelity Federal Bank as our investors, serving the
20 African American community.

21 A second under construction in Southeast

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1 Los Angeles, Home Savings of America as our investment
2 partner, serving the Latino community.

3 And a third banking center with a major
4 money center bank serving as our investment partners,
5 scheduled to break ground in 1998.

6 Customer's access of seamless integrated
7 group of services including, 1) economic education; 2)
8 credit and financial services; 3) technical assistance;
9 4) case management, 5) below market check cashing
10 services in partnership with the Union Bank of
11 California's Innovative Cash and Save Division.

12 And we transition individuals from check
13 cashing customers into banking customers using micro
14 and traditional deposit accounts with a deposit taking
15 desk on site.

16 Secured and unsecured credit cards, loan
17 packaging, loan funding, post funding loans, loan
18 assistance, technical assistance, and we even operate
19 a law enforcement drop in center.

20 The Operation Hope Banking Center is indeed
21 a model for doing well by doing good, and the numbers

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1 have begun to bear that out.

2 In slightly more than one year of startup,
3 we have 2,500 full-time customers, more than 18 -- I'm
4 sorry, more than 8,000 ATM customers, while there are
5 two ATM machines from a mainstream money center bank
6 less than 100 yards away.

7 We shouldn't have two customers. Yet we
8 have 8,000. I believe that tells you something. We
9 have 600 individuals enrolled in our credit counseling
10 program, who are trying to help themselves move from
11 hopelessness to hope.

12 More than 1,500 free credit reports have
13 been issued, and our computer resource center and on
14 line banking center -- who said Blacks and Browns don't
15 like computers -- is at capacity five out of six days
16 a week that we are open.

17 To date, OHI and its partners have issued
18 commitments in excess of \$21 million, and funded \$15
19 million in loans, and all loans but two were paid as
20 agreed; and our largest complaint at the banking center
21 is not enough modem lines.

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1 In our underserved communities, very often
2 it is what you don't know that you don't know that
3 kills you.

4 But there are very few people in our
5 organizations, and almost no institutions that people
6 trust to give them the answers and the help that they
7 need.

8 As our banking center motto has already
9 proven successful in many ways, there are countless
10 community based and non-profit organizations that have
11 the ability, the talent, the professionalism, the
12 access in the interest of fill the gap created by
13 America's rush to embrace the information age.

14 Locally, you can look towards organizations
15 like First AME Church with more than 15,000 members,
16 West Angeles Church with more than 16,000 members,
17 Crenshaw Christian Center with more than 20,000
18 members, the Community Financial Resource Center, the
19 Latin Business Association, Fame, Renaissance and many
20 others.

21 What they need is a structure that include

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1 a defined and meaningful role for them to play, and
2 partners who treat them as equal partners in trade.

3 And of course, they'll have to hold them
4 accountable for results. The solution I propose
5 addresses many systemic -- systemic and practical
6 problems, 1) community buy in versus trickle down, 2)
7 even in fair distribution of electronic commerce in
8 underbank communities, 3) a practical process of
9 graduating individuals out of the non-bank client
10 group.

11 Your 10 million -- you 10 million figures
12 should decrease over time if you're doing your job
13 right.

14 4) Developing and supporting self-
15 sustaining community based organizations, and 5) a self
16 regulating benefit of enlightened self interest.

17 This is a sea where all boats rise. Better
18 still, it is a sea where very few boats set to sea
19 subsequently spring leaks -- a hand up and not a hand
20 out.

21 Thank you, very much.

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1 MS. LANE: Thank you, Mr. Bryant. Mr.
2 Randolph?

3 MR. RANDOLPH: Good morning. Mr. Chairman
4 and members of the Committee, the East Palo Alto
5 Community Alliance and Neighborhood Development
6 Organization, EPA CANDO, wishes to thank you for the
7 opportunity to present testimony regarding implications
8 of EFT 99 to the City of East Palo Alto.

9 My name is Leonard Randolph, and I'm the
10 Executive Director of EPA CANDO, a non-profit community
11 development organization, who's mission is to enhance
12 the quality of life of all residents of East Palo Alto
13 by empowering our members to engage in housing,
14 economic and community development.

15 We serve a very low income population in
16 San Mateo County, one of the richest counties, not only
17 in California, but in the country.

18 EFT 99 will have significant impacts on us
19 and communities like ours, and my comments today will
20 address those concerns, but also to present possible
21 suggestions to help with the implementation of this

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1 Act.

2 Located in the heart of Silicon Valley, the
3 City of East Palo Alto is an anomaly. While Silicon
4 Valley as a whole is experiencing tremendous economic
5 and housing growth, East Palo Alto seemingly has
6 regressed.

7 As our more affluent neighbors capitalize
8 from the growing computer and high tech industries,
9 East Palo Alto has to fight with the county to maintain
10 control of its own police department.

11 While our neighbors argue about the noise
12 of leaf blowers, or the sound coming from an
13 amphitheater, East Palo Alto worries about whether it
14 can maintain its billing department.

15 And while our wealthy neighbors can rally
16 to stop the closure of a bank branch, East Palo Alto is
17 still waiting to see the construction of the first ATM
18 connected to one of the major financial institutions.

19 And I'm happy to say I talked to one of the
20 representatives of Bank of America this morning, and
21 they're -- they're feverishly working on putting an ATM

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1 into East Palo Alto, and hope to see it in the first
2 quarter of 1998.

3 Yes, this is the eve of the 21st century,
4 and there are still cities that do not have banks. As
5 with many minority or low income communities, East Palo
6 Alto suffers these and many more social ills that are
7 -- that are not shared by our wealthy neighbors.

8 Residents in these affluent communities are
9 more comfortable talking about computers,
10 telecommunications, the internet, the super information
11 highway and so forth.

12 To them it's a normal matter of life. But
13 to low income, immigrant, and elderly populations,
14 these 20th and 21st century topics are as foreign as
15 the U.S. interest in the -- in the extent of nuclear
16 weapons in Iraq, and often -- sometimes -- oftentimes
17 it's scary as the thought of Saddam Hussein controlling
18 them.

19 During the hearings you've conducted today
20 -- this one today, we have undoubtedly heard many
21 comments about, 1) what entities should be considered

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1 an authorized agent, 2) the definition of hardship, and
2 how recipients can qualify, 3) limitation on fees
3 associated with a recipient's bank accounts and the new
4 ETA accounts, and 4) the potential opportunity for the
5 Treasury Department to influence financial institutions
6 to provide more resources than lower income
7 communities.

8 I will briefly address these four areas,
9 and then comment on other issues that most directly
10 impacts my community.

11 As far as authorized agents, it has been
12 well documented that Federally regulated and supervised
13 financial institutions on average are less expensive
14 for consumers than check cashing outlets.

15 Our own community survey, conducted in 1995
16 found that a household earning \$16,500 per year, which
17 isn't unusual for our community, would spend roughly
18 \$325 a year on check cashing services, as opposed to
19 about \$60 a year on a -- at a bank.

20 That equates to about two percent of their
21 income being spent on check cashing fees. And for a

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1 low income family, this is considerable loss of income
2 that equates to about \$25 a month.

3 But personally, I would recommend a check
4 casher not be designated an authorized agent. I do
5 recognize that unfortunately for a lot of our
6 residents, there are no other options.

7 I would, however, recommend that the
8 Federal Government -- Government enact and adequately
9 enforce legislation that will limit the fringe banking
10 community's ability to take advantage of the poor and
11 elderly.

12 As far as hardships, the hardship
13 definition -- definition should not only take into
14 account the cost of the recipients for having a bank
15 account for the unbanked, but should also include
16 access to financial institutions.

17 As I mentioned earlier, there are no
18 financial institutions, nor ATMs connected to them in
19 East Palo Alto.

20 And while over 65 percent of our population
21 has checking or savings accounts, all of our customers

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1 are required to commute to another city to access their
2 accounts.

3 Especially for elderly, who have limited
4 transportation options, access to bank accounts or ATMs
5 -- our computer's programmed for online -- online
6 banking could be a hardship.

7 Cost for services, the Treasury Department
8 should keep an ever watchful eye on fees and pools on
9 newly established accounts for recipients of Federal
10 payments.

11 These costs should reflect the actual cost
12 borne by the institution for providing the service. As
13 far as opportunities for the Treasury Department to --
14 to assist in influencing -- influencing reinvestment
15 into communities, I think my colleague here, Alan --
16 Alan Fisher from the California Reinvestment Committee,
17 is working on the opportunity for the Treasury
18 Department -- or working on the opportunity of
19 reinvesting in local communities.

20 As the Treasury Department may be required
21 to set up ETAs with a designated financial institution

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1 -- financial institution, excuse me, you should also
2 help assure that these institutions are providing
3 resources and reinvesting in the lower income
4 communities that they services.

5 The two issues that I wanted to focus on
6 are education and implementation. I think it is safe
7 to assume that the implementation of EFT 1999, is
8 inevitable.

9 This gives you, financial institutions, and
10 the communities, not quite one year to prepare, inform
11 and educate recipients on this program.

12 I say it's not quite a year, because you
13 must discount for holidays in the months of November
14 through January, which could effectively add up to two
15 months of lost time.

16 Even in the communities the size of East
17 Palo Alto, which is roughly 26,000 folks, informing and
18 educating residents and businesses will be difficult at
19 best.

20 It is my understanding that after you
21 conclude this last hearing, the next step will be

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1 gearing up for implementation.

2 Part of that process should include some
3 form of community education, but I -- and I'm sure
4 others are not aware of how -- how this will be
5 accomplished.

6 I thus offer the following four suggestions
7 on how to inform and educate our residents:

8 1) If it has not already been done, a
9 letter should be sent to every recipient of Federal
10 money informing them of the change to a paperless
11 environment.

12 This notice should identify those payment
13 contracts, etcetera, that are affected by EFT 99. It
14 should be made available in a variety of languages.

15 Our community is predominantly Latino right
16 now with a growing Pacific and elder population. This
17 notice should also be posted at all financial
18 institutions, Federal, Regional and local Government
19 buildings, and -- and with local social service
20 providers.

21 2) A pamphlet explaining the Act should be

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1 distributed to the entities mentioned above. It should
2 include an easy to understand step by step process by
3 which -- by -- process one would follow to comply with
4 the regulations.

5 3) The Treasury Department should also
6 conduct regional trainings for community based
7 organizations, social service providers, financial
8 institutions and public agencies on EFT 99.

9 The training should focus on preparing
10 these groups to educate their clients on these new
11 regulations. And

12 4) Funds should be set aside for community
13 based organizations, social service providers, and --
14 and/or public agencies to conduct community workshops
15 on EFT 99.

16 As we are in closer contact with the
17 recipients of these payments, we would be better able
18 to spread the word, and to educate them.

19 Funding for these activities could come
20 from the anticipated \$100 million in savings projected
21 to be achieved from Government wide implementation of

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1 the Act.

2 In addressing the implementation of EFT 99,
3 I would offer the following two suggestions:

4 1) Grant funds should be allocated for non-
5 profit organizations, schools, affordable housing
6 developers, social service providers, and others to set
7 up computer centers for online banking access.

8 A strategy might include funding the HUD
9 neighborhood network centers in affordable housing
10 developments.

11 As of now that is of yet an unfunded
12 program.

13 Online banking should be a required service
14 within these centers.

15 2) Grants or low interest loans should be
16 made available, possibly through the Small Business
17 Administration, for small to medium sized businesses
18 serving low income communities to acquire a point of
19 sale devices.

20 This will allow those serving the poor to
21 participate in the technological revolution we are

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1 experiencing across the globe.

2 In closing, once again, thank you for this
3 opportunity to address you on this impending
4 legislation.

5 As one who recognizes and applauds the
6 technological improvements that allow for greater
7 efficiency, I appreciate the intent behind EFT 99.

8 Truly, when implemented correctly, the
9 potential gain to the community of East Palo Alto is
10 substantial.

11 Yet, I must caution that change is never
12 easy, but steps can, and should be taken in advance to
13 mitigate whatever problems may arise.

14 I hope that the suggestions that I and
15 those have made or will make can help in some way in
16 the success of implementing EFT 99.

17 Thank you.

18 MS. LANE: Thank you, Mr. Randolph. We'll
19 now go to questions from the Government Panel of the
20 witnesses. Mr. Hammond?

21 MR. HAMMOND: I'd like to start off with a

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1 question for Mr. Hudson. Throughout your testimony,
2 you -- you commented about the need to -- to limit --
3 excuse me -- to either limit or restrict the ability of
4 third party providers to -- to in essence serve as
5 providers of financial services; though at one point in
6 your testimony you'd commented about the successful
7 partnership that you had with a local check cashing
8 operation.

9 And I guess I would like you to elaborate
10 a little bit on perhaps -- there's obviously a
11 difference in what -- what kind of partnership you're
12 talking about being limited or restricted versus the
13 type of relationship that you've entered into, and I
14 was wondering if you could just elaborate on that a
15 little bit.

16 MR. HUDSON: The difference is we're
17 operating a bank. It's an in-store bank branch. So --
18 Well's Fargo B of A is in a grocery store, and it's
19 dual we're in as a check cashing company.

20 So we operate separately from, and maintain
21 -- you can get all the service that they did.

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1 Basically all the services at our traditional bank you
2 can get at this bank, as opposed to the limited
3 functions of receiving funds, deposited in an account,
4 and then all of the functions are delegated to a third
5 party financial person.

6 And I think that is the direction that
7 large money centered banks are moving because it is a
8 more cost efficient way to -- to approach the difficult
9 task of balancing the cost of people with very low
10 balances, high transactions, and some risky credit
11 profiles, and not being able to charge them to
12 compensate.

13 So the only way to -- to handle that kind
14 of mismatch is to delegate most of the activities, and
15 most of the functions to third party vendors, which can
16 charge, and they're not regular.

17 MR. HAMMOND: I appreciate -- I appreciate
18 -- that helps me quite a bit. So in essence, you're --
19 what you're really talking about is a co-location type
20 --

21 MR. HUDSON: Right --

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1 MR. HAMMOND: -- of operation as opposed to
2 a partnership, per se. Alright. Thank you, very much.

3 MS. LANE: Yes, sir.

4 COURT REPORTER: I just need to change
5 sides.

6 MS. LANE: Okay. We can take a break.

7 (Whereupon, a brief recess was taken.)

8 MS. LANE: Okay, Mr. --

9 MR. HUDSON: I just don't want you to think
10 it's just an ATM location. We have a -- we have a
11 full-time employee, and it's open six days a week.

12 So you can actually approach some way --
13 ask questions about direct deposit, about the -- the
14 difference between cash checking and checking accounts,
15 so it's -- and get loans.

16 MR. HAMMOND: It really is a full service
17 branch, in essence? It's just perhaps designed in a
18 different fashion.

19 MR. HUDSON: Right.

20 MS. LANE: Mr. Staples?

21 MR. STAPLES: Yes, Mr. Hudson again. You

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1 mentioned the term, "self-select" in your -- in your
2 testimony.

3 It was part of a longer sentence, so I --
4 I want you to -- if you could, say a few more words.
5 I think it was in relation to the ETA account.

6 And I guess let me ask a sort of a second
7 question at the same time. Have you thought about the
8 indemnification of the waiver conditions, and the --
9 the individual's role in self-selecting or not, in some
10 way under that?

11 MR. HUDSON: Yes, I think the waiver
12 provisions are quite broad, and quite adequate. The --
13 the problem I have is at some point, there's a drop
14 dead date, where you -- there are really minimum
15 waivers, and once you have this account set up, there's
16 almost really no excuses left.

17 That's when the problem comes in. And I
18 did -- I use self-select in my comments, and I -- I
19 apologize.

20 I was gearing my remarks based on Alan, and
21 I thought that I was going to run about 20 minutes, so

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1 I was racing through the presentation.

2 My self-select referred to institutions
3 that want to be a part of this EFT account, who will
4 voluntarily self-select.

5 Not all the institutions want to offer this
6 EFT account. So what I think you'll have if you open
7 it up to all financial institutions, is that only a few
8 will want to be a part of this process, and they will
9 self-select themselves.

10 And so this whole question of identifying
11 institutions that will participate or not participate
12 will be done by the private enterprise -- by the
13 private industry.

14 We will say, "I want to be a part of it,
15 and I will apply to be a part of it, and I will comply
16 with the EFT account structure that you come up with,
17 just like B of A, Wells Fargo, and Nations Bank.

18 MR. STAPLES: Thank you.

19 MS. LANE: Other questions?

20 MR. SHELTON: Uh, yeah.

21 MS. LANE: Mr. Shelton?

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1 MR. SHELTON: I'd like to ask any of the
2 panel members -- describe to me -- I know you've tried
3 it, you've done some of it in your talks now, but in
4 moving people from checks to the electronics, describe
5 a model, what that model should cost, and who should
6 pay for that, or share in it, or -- or where the costs
7 should be distributed, or whether it should cost
8 anything?

9 And I'll open it to any panel member that
10 wants to address that.

11 MR. HUDSON: I'll start. The -- in my
12 remarks, I gave you a very definite structure of the
13 type of an account.

14 MR. SHELTON: Right.

15 MR. HUDSON: I -- I firmly believe that the
16 clearest message I can make to you is cost is the most
17 important variable.

18 So the -- the objective is to bring it down
19 to the lowest cost possible, with the broadest amount
20 of flexibility to the consumer without, you know,
21 giving them unlimited services and products.

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1 I -- I think the basic services are that
2 they need to be able to withdraw funds, make payments,
3 receive electronic funds, and -- and that should be
4 provided at a minimal cost.

5 MR. SHELTON: Be more definitive than that.

6 MR. HUDSON: Excuse me?

7 MR. SHELTON: Can you be more definitive on
8 what that cost should be?

9 MR. HUDSON: Yeah, I mean, I think it
10 should be --

11 MR. SHELTON: A range could be fine, I
12 mean.

13 MR. HUDSON: If it was at our bank, that
14 cost would be probably three dollars a month, \$36 a
15 year for four withdrawals a month, four electronic fund
16 deposits a month, four money orders a month, and
17 unlimited ATM use.

18 MR. SHELTON: Okay.

19 MR. HUDSON: And you would earn two percent
20 interest on that account.

21 MR. SHELTON: That cost -- the three

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1 dollars would be -- the -- the customer would pay for
2 that?

3 MR. HUDSON: The customer would pay for
4 that.

5 MR. SHELTON: Okay.

6 MR. STAPLES: And it would only be at your
7 ATM machine?

8 MR. HUDSON: Yeah, that's the problem.
9 That's the major problem. When you -- and it's not
10 just Broadway Federal Bank's problem.

11 When you start using ATM outside of my
12 network, you're going to get charged substantially, and
13 that's the problem I have with debit cards.

14 If you force people to use debit cards,
15 you're forcing them, in underserved communities, to pay
16 an excise, in addition to whatever minimum bank charge
17 you charge, you're going to force them to incur \$1.50
18 to \$2.00 for every time they use an ATM at a grocery
19 store, at another person's bank, at a check cashing
20 operation at my bank.

21 So it's -- it's a real problem. When you

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1 force people to use debit cards, and you don't give
2 them the ability to walk in and access their funds
3 directly.

4 MR. BRYANT: On this point, Paul makes a
5 very good point which needs to be amplified. I know I
6 was going to give you two quick examples.

7 When I was growing up in business, as I was
8 -- started to do well, I noticed I started to get more
9 and more money out of the ATM machine every time I
10 went.

11 You know, at first you go get 20 bucks out,
12 and then the next day you go get another 20, or maybe
13 that evening.

14 And then after a while, you start taking
15 out 100 and 200, and it's the same fee no matter how
16 much you take out.

17 And so I think the important point here is
18 that -- is that the folks, really that we're talking
19 about, are going to be going to that machine once a
20 day, twice a day, going to the grocery store, going to
21 get some cash to do whatever, but they can only take

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1 out the minimal amount.

2 Or they're going to be cautious if they
3 have any common sense at all, and that means that those
4 -- those per usage charges are going to go through the
5 roof.

6 And the last analogy I -- I want to give
7 you is my cable company. They recently changed
8 service.

9 The only problem is, I didn't ask them.
10 And they came to me -- right after they turned off my
11 service.

12 And I said, "Why are you turning off my
13 service?"

14 They said, "Because you didn't respond to
15 us to put in a cable box."

16 And I said, "Well, I don't want a cable
17 box."

18 And they want to charge me four bucks for
19 the pleasure.

20 I said, "I never asked for a cable box. I
21 liked the service just the way I had it."

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1 Well, they didn't give me an option. The
2 bill was paid on time. We had a great wonderful
3 relationship -- I loved the quality.

4 I don't see any difference in the quality
5 of the picture I'm getting today than I got yesterday.
6 But the reality was, if I didn't say yes, they were
7 going to cut it off.

8 And -- and so when we box people in like
9 that, you really make them captive for those predators
10 in these markets who are less than scrupulous.

11 MR. FISHER: The one thing I -- I wanted to
12 add to this is the other issue of fees beyond the ATM
13 fees.

14 You get seven checks a month, and it
15 happens that eight clear in a particular month. Now,
16 even though you wrote them chronologically within a
17 month, and I think that's another thing that you need
18 to look at with these accounts, are -- are there hidden
19 fees?

20 Because I know one of my friend's nephew
21 had some money in an account that was below the minimum

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1 balance, and in two or three months it got eaten up by
2 fees.

3 He came back to his account that he thought
4 had money in it, and it was a negative account. So I
5 think that's another issue beyond the up front costs
6 that you need to look at.

7 MR. HUDSON: One other thing about cash
8 consumers, and why they're cash consumers, everybody
9 opens an account, we run on check systems.

10 If they have any problem whatsoever, we
11 won't open their account. Or if -- the other reason is
12 that we may ask for three different forms of ID and
13 they only have one.

14 So you have to understand that some people
15 are cash consumers because they can't get a bank
16 account, or the bank's -- they don't fit the bank
17 profile.

18 So when you set up accounts, I'm assuming
19 that you will -- that you will force banks to take
20 accounts from anyone and everyone based on the minimal
21 amount of ID, and not having the -- even if they have

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1 a problem with check systems, which I imagine the
2 banking community will have some concerns about -- have
3 some dialogue with you about, but otherwise, I don't
4 see how people can get into this EFT account on a
5 wholesale basis.

6 MS. LANE: Mr. Randolph?

7 MR. RANDOLPH: Part of what I heard you --
8 you ask, too, was as we're -- as we're transitioning
9 from a check writing environment to a electronic
10 environment, who would bear the costs of educating the
11 consumers on that -- that part of the process.

12 I think that's where organizations like
13 Operation Hope down here in LA, and I think -- to a
14 small extent, EPA can do up in the Bay area, where
15 we're putting together a banking technology center
16 similar to what Operation Hope is, that's where we come
17 into play.

18 And how do we fund that? I think part of
19 my suggestions and my comments earlier were that --
20 that the Department of Treasury and the Federal
21 Government look at ways that some of that money can be

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1 allocated as being saved right now from going to -- to
2 EFT 99, and being allocated toward these centers.

3 Maybe the HUD neighborhood network program
4 is going on right now, which does call for more
5 computer centers being established in affordable
6 housing developments.

7 This is an access point for folks --
8 especially elderly and low income folks who don't have
9 transportation to banks which do not exist in my
10 community or other communities like the East Palo Alto,
11 to be able to access their accounts.

12 And as we do the education of these, too,
13 we -- we familiarize them with the online banking
14 process.

15 MR. FISHER: Well, if I could say something
16 to the check system issue. I mean one way around that,
17 in terms of the bank's concerns may be to have it be
18 electronic access and money orders.

19 The money order can only be filled if
20 there's money in the account. So I would really urge
21 you not to go to the electronic only, because I don't

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1 think it works well for people, because of these
2 concerns, but to be flexible about that and see what
3 can really come of it.

4 MS. LANE: Mr. Randolph, in your comments,
5 you mentioned perhaps some loans from the Small
6 Business Administration to help organizations purchase
7 point of sale equipment.

8 What kinds of organizations were you
9 thinking of, and how might this work in the current
10 financial network?

11 MR. RANDOLPH: Well, when I was putting
12 those comments together, I was looking at particular
13 industries that are frequent in smaller communities,
14 lower income communities, and what we find is that
15 there are a lot of mom and pop business available in
16 nail salons, in our community.

17 We have, unfortunately, a lot of liquor
18 stores in our communities, so I'm not suggesting that
19 loans be given to liquor stores, but possibly to the
20 mom and pop operations that exist in our communities --
21 some of the small family restaurants that may be an

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1 operation.

2 We have a couple of fast food operations in
3 East Palo Alto which are viable businesses, but they
4 don't have the resources in place right now to -- to
5 convert to an electronic environment.

6 So those are the types of businesses that
7 --

8 MS. LANE: One of the things that might
9 help with point of sale is the EBT program -- the
10 Electronic Benefits Transfer, that is -- is taking
11 place in many states with food stamps, and they are
12 equipping mom and pop stores.

13 The Department of Agriculture has to equip
14 any store that doesn't really have the -- the funds to
15 do it themselves, or doesn't make the business decision
16 to do it.

17 I don't know how -- how soon EBT's coming
18 to California. I think it's being tested in a couple
19 of counties now, but that may be part of the solution.

20 Are there other questions?

21 MR. HAMMOND: I had one -- one additional

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1 question for Mr. Randolph, related to the -- the notion
2 you were talking about, waivers based on access or the
3 ability to access a banking location, and in the
4 proposed regulation, we put together a geographic
5 waiver.

6 And I was wondering if you thought that
7 that would -- would be sufficient to deal with the
8 circumstances where somebody -- you know, for example,
9 where a community didn't have banking access, or
10 whether there was some change to the reg that would be
11 required to address -- address your point.

12 MR. RANDOLPH: I'm -- I -- I've got to be
13 honest. I'm not completely familiar with the
14 geographic waiver, but to the extent that it allows for
15 communities like East Palo Alto -- residents of East
16 Palo Alto to -- to be, you know, considered under that
17 waiver.

18 I mean what our problem right now is that
19 we don't have a public system that's -- that's adequate
20 right now for lower income population, and that's where
21 my main concern is right now, especially our senior

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1 residents to be able to access their accounts
2 correctly.

3 MR. STOUT: Thank you. I'd like to -- I'd
4 like to shift gears a little bit. One of the things
5 that we seem to focus on, and rightly so, is the bank
6 community.

7 We have a population that is equally as
8 large that we need to address between now and January
9 1, 1999, and that is those individuals who are, and
10 already have a relationship with a financial
11 institution who continue to see that payment's by
12 check.

13 And I was just wondering what any one of
14 the panels might do to help us in -- in trying to let
15 us know what you think some of the issues are, and some
16 of the ways we might be able to address, encouraging
17 those who already have that relationship to move into
18 an environment of direct deposit.

19 MR. BRYANT: Education, education,
20 education.

21 MR. HUDSON: We -- we face that issue in

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1 another way. We have customers that have a passbook --
2 a book, and without that book they don't feel they have
3 an account, and they don't feel they have access to the
4 account.

5 It's almost like a physical check, is to
6 some people, this book is to them. And it's going to
7 be very difficult on a lot of your SSI recipients and
8 senior citizens that to -- to convince them that they
9 are as safe and secure with electronic transfer as they
10 are with the physical check.

11 And I know it's hard for you to probably
12 understand this given security and the risk, and
13 privacy and all the other issues, but some people just
14 need to see and touch and control that physical.

15 And once it goes into electronic system,
16 they're not sure where it is, they don't trust it, they
17 don't feel comfortable that it's being handled
18 adequately.

19 And so there is a -- as hard as it is to
20 believe, from their point of view, it is a safety and
21 privacy issue, and security issue when it goes to

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1 Electronic Funds Transfer.

2 I think that's what John's talking about,
3 educate, educate, educate -- and it's going to be an
4 uphill struggle.

5 And you will find that a lot of these
6 people in Section 208.8 deals with this. There are
7 going to be a lot of people that are just not going to
8 respond to it -- that just say, "I don't know what this
9 is about. I don't understand it. I'm not going to be
10 a part of it."

11 And they're just going to dump that
12 literature, and at some -- at some point, they're going
13 to find out their account is -- is now in a -- in a
14 bank somewhere, and they don't get a check anymore.

15 That's going to be a difficult situation
16 for the bank to have to deal with to explain to these
17 people that they -- that the Government has now put
18 their check they used to get physically -- no matter
19 how many notices you send them in the mail -- is now --
20 without -- and because they didn't approve it, they
21 didn't sign anything to say you could do this, now that

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1 account is in a bank somewhere, and they've got a debit
2 card to use.

3 That's going to be -- I don't know how many
4 people, or what percentage we're talking about, but
5 it's a scary prospect for the banks that we're the ones
6 that are going to be responsible for dealing with that
7 concern.

8 MR. RANDOLPH: I think that to the extent
9 that you can empower the local groups to provide that
10 education as I suggested, having the Department of
11 Treasury and the Federal Government put together some
12 training programs for the community based groups so
13 that we can actually go out to our -- our clients and
14 educate them.

15 I bet it's more effective than trying to
16 have you all do it for -- on a local level. Thanks.

17 MR. BRYANT: With respect to trying to tie
18 this education into the -- the fees, clearly, if you
19 can avoid charging people that did not request this,
20 that is the preferred route.

21 Very much like I felt again with I -- I --

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1 as silly as this may sound, I want you to keep thinking
2 about this cable interaction I had.

3 I mean, it is -- and -- and I think I'm a
4 reasonable person. I didn't request it. I didn't want
5 it, but I've got to pay for the pleasure of changing to
6 something that somebody else wanted.

7 Now, there's a lot of folks who I think are
8 less reasonable and less patient who are going to end
9 up in Paul Hudson's lobby.

10 And Paul -- then Paul Hudson's going to
11 give them your number.

12 But I think that to --

13 MR. HUDSON: And -- and names.

14 (Laughter.)

15 MR. RANDOLPH: Preferably home numbers.
16 But I think that to the extent that -- that you can
17 pass this on without passing on a cost, at least to a
18 portion of these in users who cannot afford an
19 additional surcharge, that is preferable.

20 To -- to the extent that -- that, you know,
21 that there is going to be a charge, my -- my suggestion

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1 is, when you're being run out of town, get in front of
2 the crowd and make like a parade, bring community based
3 organizations into this, let them create partnerships
4 with the banks.

5 That will help to self regulate the -- the
6 fees so they don't skyrocket, because they're going to
7 both monitor the fees, but the -- let the community
8 based organizations share in the fee that the bank is
9 earning, thereby giving everybody a win, win.

10 And I believe also, having the least
11 likelihood of having fees skyrocket unchecked and
12 uncontrolled.

13 MR. FISHER: You know there's some people
14 -- as -- as you said yesterday may not want this, as
15 hard as it is to believe.

16 MS. LANE: Yeah.

17 MR. FISHER: And, you know, I think that's,
18 again, why it's important to educate about the waivers,
19 so that people have these choices, and that maybe
20 there's an openness that, well maybe someone decides in
21 1995 they really want to do this, you know and that

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1 there are options along the way that I think work for
2 what you're trying to do, and don't rush people into
3 it.

4 MR. STAPLES: Let me ask a question about
5 tradeoffs on check writing and -- to you Mr. Fisher and
6 your money orders.

7 Certainly one of the -- the down sides to
8 a program like this is the possibility that people
9 encounter fees particularly for -- for overdrafts and
10 checks written that weren't -- that rely on record
11 keeping and -- and things of that sort.

12 Presumably, the option you laid out that
13 would be a -- an ETA account with money orders only in
14 addition to the ATM, relieves the consumer of that
15 burden in the sense that you can't have an overdraft
16 presumably for a money order.

17 But if you -- any of you could -- could
18 address this nexus between providing for the check
19 writing capability versus the consumer protection that
20 comes from not having check writing capability and
21 incurring the costs of the overdrafts?

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1 MR. HUDSON: Well the -- the first thing
2 you should understand from a banking perspective, it's
3 more expensive for us to offer an account with money
4 orders, than it is to offer a checking account.

5 It -- It's kind of like you guys and
6 physical checks and Electronic Funds Transfer. But
7 from the consumer point of view, it's a lot more
8 difficult for them to manage a checking account than it
9 is an account with money orders, because like Alan
10 says, you'll -- you'll have so much cash, and get so
11 many money orders, and that's all you can do.

12 With a checking account, you can get into
13 a lot of trouble, and there will be fees associated
14 with it, and banks will close those accounts.

15 So then we're back to a system of, well,
16 how do they access their EFT money, and it's probably
17 through an ATM transaction card.

18 Because I think you really have to get
19 involved in regulating this issue because most banks
20 that I'm aware of will charge you for those money
21 orders anywhere from \$1.50 to \$2.50 each.

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1 And we have customers that come in on the
2 1st and the 15th of the month with their electronically
3 deposited social security check and will get 15 money
4 orders.

5 And you try and tell them a checking
6 account's better, and they say, "This is the way I've
7 done it. This is the way I will continue to do it,
8 because this is the way I'm comfortable with."

9 So, I mean, I don't know if there's an
10 answer, but clearly it's -- it's an area that needs to
11 be regulated, otherwise, as I said in my testimony, you
12 will find that consumers are going to pay more to
13 receive their funds electronically than they did
14 through a physical check.

15 MR. FISHER: I mean, I -- I think for --
16 for us, we haven't -- we still aren't -- aren't clear,
17 because there's some -- there's some conflicting issues
18 here.

19 I think the Congresswoman's issue that
20 there shouldn't be some special account for people is
21 a very important one.

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1 On the other hand, in pragmatic terms,
2 financial institutions have shown tremendous reluctance
3 to open accounts.

4 That's why a lot of people don't have
5 accounts, because they've made a mistake before, or --
6 or a variety of reasons.

7 Others, because of how banks treat them in
8 their variety of reasons. And I just think that in
9 looking at this, there needs to be something beyond the
10 electronic, so that it can really work for people, and
11 that it ought to be something with some flexibility.

12 I mean checks are better in some ways for
13 some people, and -- and money orders are better in --
14 for other people in other situations.

15 And I think, you know, this needs to be --
16 to be weighed out some, and see what can work, but I --
17 I think our strongest message is that it should not be
18 an electronic only account.

19 Because that -- that doesn't add to
20 people's safety and security in terms of being able to
21 keep receipts, pay bills, and -- and all of that.

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1 And I think the other needs to be wrestled
2 through a little bit more, you know.

3 MS. LANE: Mr. Hudson, could I ask you a
4 question? One of the populations that I serve -- that
5 concerns me, having responsibility for social security
6 and SSI recipients in South Central is -- the people
7 who -- and -- and throughout the City -- people who
8 have bank accounts and do not have direct deposit for
9 their checks, and this is a considerable number of
10 people in attempting to have people move to EFT.

11 One of the things, and -- and Congresswoman
12 Waters mentioned is, you know, that a lot of elderly
13 people do just like to see the check.

14 I know this is very important in a lot of
15 the immigrant communities, also, where they like to
16 know and see the nexus of the check being placed into
17 their account in the bank.

18 Is it a -- an expensive proposition to --
19 for the bank to issue in the mail a deposit slip to the
20 customers showing that the check was deposited
21 electronically, so that at the beginning of the month

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1 the customer actually has proof of that nexus without
2 actually having to have the paper check and all the
3 risks associated with the receipt of the paper check in
4 Los Angeles County.

5 MR. HUDSON: There is a cost. I would not
6 characterize it as expensive. We -- we provide those
7 services regularly to our other customers in terms of
8 if they make a deposit by mail, we give them a receipt.

9 If they have a statement savings, we give
10 them a monthly statement. So there is regular mailings
11 that we are accustomed of handling anyway.

12 I think though that there is a -- there is
13 a cost associated with that. I -- I think it is a
14 minimal cost, but I think it gets back to Mr. Shelton's
15 question about what is the cost of this account.

16 I think -- I -- I think that as we add
17 these costs, it goes up to \$3 dollars. And maybe the
18 number is \$5 a month, but -- but I think that that's a
19 realistic option for people to get something that says
20 you received this amount of money, and if you could
21 even send it out so it looks like a check.

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1 So -- but, and I think that, you know, when
2 the hysteria of EFT 99 kicks in, there will be a lot of
3 people that have checking accounts that are getting
4 physical checks that now say, "You know, I'm going to
5 do it by EFT."

6 Because this would be so much education, so
7 much information, and so much -- so many -- it's
8 participants trying to get them to go to banks, the
9 Government, community organizations, that I think it
10 would facilitate and would help if we sent some
11 recognition that the funds are here, and that -- you
12 know, it's some much money.

13 MS. LANE: Okay. I would like to thank the
14 members of the first panel. We will take a very brief
15 break just to change the -- the panel members.

16 No long break at this time, thank you.

17 (Whereupon, a brief recess was taken.)

18 MS. LANE: Our next panel consists of four
19 witnesses. Testifying first would be Lea Baines from
20 the Ravenswood Federal Credit Union, followed by Page
21 Ogden from the Britton and Koontz First National Bank

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1 of natchez, Mississippi.

2 Next would be Brenda Yost, Bank of America,
3 James Ball, National Check Cashers Association. Ms.
4 Baines?

5 MS. BAINES: Good morning. It's a pleasure
6 to come before all of you. We are a new organization
7 out here to help low income community development urban
8 cities.

9 We are at East Palo Alto, California. Had
10 the political situation not preempted us with police
11 department, would have -- we would have been publicly
12 announced on Wednesday.

13 Mr. Randolph is aware -- we notified their
14 Board April 28th, and I did leave phone messages to
15 speak with Mr. Randolph before coming.

16 Mine is pretty direct and very short. The
17 implementation of EFT by the Department of the Treasury
18 will not only have a positive impact on the amount of
19 tax payer money saved by the Government, it will have
20 long term positive effects on depositors who have
21 previously been underserved, even denied banking

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1 services, such as recipients of AFDC.

2 Prior to the creation of Ravenwood's
3 Federal Credit Union, no financial institution of any
4 kind existed in East Palo Alto, California.

5 Despite being surrounded by the most
6 affluent cities in the country, with a population in
7 the 23 to 29,000 range.

8 In addition to the savings mentioned above,
9 service contracts with Department of Treasury
10 conversion to EFT direct deposit method would open job
11 training benefits and employment in high unemployed
12 urban cities in communities served by federal credit
13 unions with low income community development financial
14 institution status.

15 The things that we see that need to be
16 addressed are some of the questions that all of you
17 pose today.

18 Banks -- commercial banks, existing long
19 term banks -- they need to provide the following
20 services to institutions that will serve the
21 underserved population.

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1 Part -- they need to help fund, perhaps out
2 of unused portion of their present CRA money that still
3 is on -- on deposit with them, or allocate or designate
4 a portion of the CRA money.

5 But start up funds where community
6 organizations led by federal credit unions that have
7 low income community development status, linking up
8 with community organizations, commercial banking should
9 be very willing to help fund start up education costs,
10 not just the Treasury.

11 Because the Treasury has VEA and CRA funds
12 that can come to organizations that are going here
13 doing the education.

14 Not to forget the fact that there's also
15 training the trainer, it needs to provide volunteer
16 materials and manpower to assist the low income federal
17 credit unions, and their community organization
18 partners with some of the costs that has to go into the
19 education of the recipients, and the clients that will
20 be on EFT.

21 We personally feel that there should be

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1 free ATM services to financial institutions working
2 with the unbanked, and not have existing banks pass on
3 a fee to us.

4 Provide literacy regarding those financial
5 institutions to existing bank clients monthly.

6 Treasury to provide the following to
7 financial institutions that will service the unbanked:

8 CRA, VEA funds to financial institutions
9 that are willing to go after and educate and sign up
10 the unbanked.

11 Job training contracts by financial
12 institutions that acts as the fiscal agents.

13 Funding for start up costs, and job
14 training for CBOs.

15 Financial institutions, or fiscal agents to
16 account for the funds to the Treasury and other
17 sources.

18 It is our contention that a fiscal agent
19 should be set up whereby a -- a -- a trust account
20 auditing method should be set up to track the monies
21 given by Treasury for these services so that when

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1 community organizations are in a sense subcontracted to
2 assist on the education and training end.

3 But they need to provide a service, and if
4 they don't provide that service, then the funding needs
5 to stop to them.

6 And so that we don't have wasted Federal
7 dollars, we feel that the fiscal agent system would act
8 as a watchdog to protect the Federal dollars.

9 Also, grant funds and contracts will be
10 overseen by low income financial institutions or their
11 fiscal agents.

12 In the specific case of Ravenswood Federal
13 Credit Union, the Nation Federation has designated
14 people projects and progress of 503(c)3 non-profit
15 community organization in East Palo Alto as the
16 community partner, because they formed the credit
17 union.

18 So we implemented the process so that our
19 people have access to financial institutions. And
20 people progress, and progress -- people projects and
21 progress would in turn bring in and enfold the other

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1 community organizations throughout four counties.

2 So that we have a host of people
3 networking, and doing education as well as job
4 training, and training of the services.

5 We think that a hands on approach needs to
6 be. If you're Latino senior, then the trainer or the
7 educator should be Latino senior.

8 In other words, match the education
9 facilitator with the group that they are trying to
10 educate.

11 We feel that moving individuals from the
12 recipient of tax dollars into the position of trained
13 tax payers from welfare to work, from underskilled,
14 from under -- under educated is a financial bonus on
15 top of the EFT bonus that would come to the Federal
16 Government.

17 Because, as you have heard today, there are
18 millions of unbanked clients. Those clients can be job
19 trained, as well as educated, and employed by the
20 financial institutions, taking them from the role of
21 living off the tax payer dollar to paying in the tax

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1 payer dollar to the Government.

2 We see the conversion as a platform for
3 widespread banking education, and the creation of
4 innovative financial services to greater numbers of
5 people.

6 Teaching those living in housing projects
7 financial money management and banking skills,
8 providing service on a scheduled basis with mobile
9 stations for non-cash transactions.

10 The -- the financial institution of
11 Ravenswood Federal Credit Union will go to the housing
12 projects, train and educate those same residents in the
13 banking.

14 We will have mobile, trained, employed
15 staff that will come on a scheduled basis to provide
16 banking services to that unserved and unbanked group of
17 people.

18 If an individual is physically disabled, or
19 a senior person, and is not able to commute or get to
20 the -- the actual bank facility, we will also train and
21 hire and employ scheduled staff that goes to their

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1 homes for the nursing home or whatever to take care of
2 their banking needs.

3 We see this as an implementation into the
4 21st century. On many of the things that were
5 discussed previously about services and cost of
6 service, it is my view that if the unbanked population
7 is paying X amount of dollars per transaction to the
8 check cashing business, they already are paying a
9 specific amount.

10 I think financial institutions should not
11 charge more, but they should charge the same as.
12 They're accustomed to paying a specific fee.

13 It might be that the implementation of
14 going from account holder, and having the bank provide
15 the specific money orders to that client from the
16 financial institution would resolve the issue of, they
17 want money orders.

18 We don't feel that we should go into
19 competition as far as trying to lower the cost. We
20 know the transaction costs are real and fixed.

21 When you power up a modem, it is going to

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1 cost you X amount of dollars or cents in utility costs
2 -- just utility costs.

3 So we know that those are kind of fixed.
4 If the financial services, provided by financial
5 institutions match -- at least match the check cashing
6 industry, we are not taking advantage of the
7 disadvantage, because that's those primary role.

8 And in most cases, we can lower the fee,
9 but we never go above what the check cashing services
10 already provide.

11 I think financial institutions,
12 specifically low income federal credit unions should
13 aggressively go after those dollars.

14 Check cashing businesses are very
15 lucrative, successful and profitable. Part of their
16 way of opening the door to this unserved population was
17 through human services contracts, or state contracts
18 whereby recipients of -- of checks from human services
19 for food stamps have to come to the check cashing
20 service to even get them.

21 The banks can offer the same thing. We

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1 certainly are going to do that. To come to the bank
2 that helps the person connect with someone that's a
3 real human being, not a machine, over a period of time,
4 they get accustomed to the new banking services, and
5 the atmosphere, and begin to trust the person that's
6 giving them the service.

7 So if you want your food stamps, then you
8 come to our financial institution to receive it, as
9 well as providing them with the new information that
10 this will be a transaction in the future that will go
11 to EFT.

12 But by that time, they will have become
13 very familiar with you, the service provider. I feel
14 that there is a massive role in education in going into
15 our schools, because not only are we trying to breach
16 the gap into the 21st century with people that are in
17 the mid-life to the senior years, but we need to be
18 able to inform, educate and instill financial banking
19 habits into the young people.

20 They're not intimidated as the seniors are
21 to use a -- a computer or an ATM machine. I don't feel

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1 that ATM machines, should those that are unbanked and
2 are on a fixed low income, I don't feel there should be
3 any service charge for using those ATM machines.

4 They certainly are not going to be charged
5 any fee at our financial institution. There has to be
6 a place in which we are reasonable and flexible with
7 those that are on permanent fixed incomes, whether it
8 be disability, social security retirement, whatever.

9 They cannot afford more than, but whatever
10 they paid for the services they received from check
11 cashing businesses, that is what they are charged, and
12 only that.

13 We also feel that the habits they've gotten
14 into, 1) the money orders, 2) being able to go and pay
15 their -- their utility bills and whatever.

16 Educating them on the services that are
17 offered by financial institutions to pay those costs
18 out of your checking account.

19 Or to pay those bills, or to provide the
20 service to the client, which is, you come to the
21 financial institution to pay your PG need, your

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1 telephone, your water.

2 Any one of those avenues help the person
3 that is intimidated and distrustful overcome it,
4 because they're not dealing with a machine.

5 They're dealing with one on one human
6 beings that speak their language, and that are job
7 trained and recruited from their own economic area.

8 So it becomes a -- a place of closing the
9 gap of trust. We also want to be able to bring up to
10 the attention of the Treasury that we need to work very
11 closely with the Treasury's criminal investigative end.

12 Because all of us can look at this at an
13 overview and see that there is massive areas for fraud.
14 Ourselves, people projects, and progress is accustomed
15 to working with the U.S. Treasury Department Criminal
16 Division out of their San Jose office.

17 Our -- our Liaison is Joe Banister. So
18 we're familiar with working with the Treasury
19 Department in criminal cases.

20 As I added to both of you, I do have the
21 privilege and the honor now of having gotten my little

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1 special certificate and accolade as a national -- as a
2 member of the National Criminal Justice Association.

3 So I'll be working on the legislative end
4 to try and help protect the disadvantaged from the
5 fraud that is out there.

6 Contracts that are presently ongoing with
7 check cashing businesses, like providing the food
8 stamps, and whatever, I -- I feel that we need to
9 seriously go into competition with them.

10 Because our role as a financial
11 institution, with the designations that we requested
12 for the unserved and underserved low income community
13 was to empower all people of all races, and all
14 economic levels with financial stability.

15 The only way we were able to discover to do
16 that was to go out and create one of our own. There is
17 no question that there has been many conversations
18 since 1983 to encourage private stockholder owned banks
19 to come and provide service for our community.

20 However, thus far, after the high crime
21 wave of the drug -- you know, the flower child era, no

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1 one has been willing to come in.

2 So therefore, our people have been denied
3 financial services. Now that we have this in the
4 community for the low income people, we would
5 aggressively fight the private banking industry coming
6 in to that small community now.

7 It's a little bit too late.

8 MS. LANE: Miss --

9 MS. BAINES: Yes.

10 MS. LANE: Miss Baines, we have a limited
11 amount of time.

12 MS. BAINES: Okay. Thank you.

13 MS. LANE: If you could wrap up. Thank
14 you.

15 MS. BAINES: So hopefully I've pointed out
16 some specifics that we can work together on.

17 Thank you, very much. It's a pleasure.

18 MS. LANE: Thank you, Miss Baines. Mr.
19 Ogden?

20 MR. OGDEN: Good morning. I'm Page Ogden,
21 President and CEO of Britton and Koontz First National

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1 Bank in Natchez, Mississippi.

2 As you can probably tell, I'm a community
3 banker a long way from home, but I'm very glad to be
4 here today to present the views of the American
5 Banker's Association on the implementation of EFT 99.

6 EFT 99 has an ambitious goal, the
7 elimination of virtually all paper Government checks.
8 It will have a big impact on millions of people who
9 receive Government benefits, and vendors that do
10 business with the Government.

11 We've made good progress in some areas,
12 such as Social Security, where 67 percent of payments
13 are currently made by direct deposit.

14 But overall, we have a long way to go, and
15 a short time to get there. In my statement today, I
16 would like to discuss three issues that surfaced in
17 each of the previous Treasury hearings.

18 First, it is very clear that public
19 awareness and consumer education must be a top
20 priority.

21 Second, there was concern about the use of

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1 waivers to allow recipients to receive a paper check,
2 rather than a direct deposit.

3 And third, there was considerable anxiety
4 over the design and cost of the electronic accounts
5 that will be offered by Treasury to deliver benefits to
6 recipients without deposit accounts.

7 My first point deals with the need for
8 public awareness and education programs. The changes
9 in consumer behavior require to move all benefit
10 recipients to direct deposit are understandably making
11 many individuals uneasy.

12 We believe that Treasury must take the lead
13 in this area. We pledge to continue to work closely
14 with Treasury, the Social Security Administration and
15 other Federal agencies that will be moving to direct
16 deposits.

17 We have also had meetings with several
18 national consumer church and community groups to
19 develop a better understanding of how we can each
20 engage our constituencies in outreach and education
21 efforts to help implement EFT 99.

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1 But we must be realistic. Some recipients
2 will never be convinced that electronic delivery is
3 safer and more efficient than a paper check.

4 And given the short time frame, we must
5 recognize that we are unlikely to reach everyone who
6 needs reaching within the next year.

7 My second point deals with the use of the
8 waivers. We believe the Treasury's proposal for a self
9 certification process is appropriate.

10 It has the advantage of not requiring an
11 expensive bureaucratic process to review waiver
12 applications.

13 In the earlier hearings, there were many
14 questions raised about the circumstances for granting
15 a waiver.

16 The goal is to design a waiver rule that
17 balances the need to encourage the use of EFT with the
18 recognition that there are hardship circumstances that
19 warrant granting a waiver.

20 We suggest that Treasury may want to
21 consider some of the requests made by consumer groups

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1 in the previous hearings for expanding the definition
2 of hardship referring in the area of linguistics and
3 language barriers.

4 The third issue deals with the design and
5 the cost of the Treasury's ETA, the account that will
6 deliver benefits to recipients without depository
7 accounts.

8 I would like to make a few general comments
9 about ETA, and then briefly look at certain specific
10 areas of concern raised in prior hearings.

11 We agree with the proposal to have the ETAs
12 offered on a regional basis by depository institutions
13 contracted with the Treasury.

14 We believe that banks are uniquely
15 positioned to provide this service, and that
16 competitive bidding for the Treasury contract will
17 ensure the best services at a reasonable price.

18 MS. LANE: Mr. Ogden, if I could interrupt
19 you, the Court Reporter has to change his tape --

20 MR. OGDEN: Sure.

21 MS. LANE: -- now, so we have to have just

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1 a brief break.

2 (Whereupon, a brief recess was taken.)

3 MS. LANE: Mr. Ogden.

4 MR. OGDEN: As I was saying, the -- we --
5 we believe that competitive bidding for the Treasury
6 contract will ensure the best services at a -- a
7 reasonable price.

8 We also agree that Treasury does not have
9 the statutory authority to regulate prices of deposit
10 services provided by private institutions in a
11 competitive marketplace.

12 Trying to assess the reasonableness of
13 thousands of accounts would cause a large and costly
14 burden for both Treasury and the institutions.

15 And worst of all, this process, like other
16 attempts at Government price setting, simply will not
17 work.

18 Let me mention four other specific issues
19 about the ETA raised in earlier hearings.

20 Issue One, some concerns have been raised
21 that the ETA will somehow be a second class account.

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1 We do not believe that that is the case.

2 The entire payment system is moving from
3 paper to electronic, because it is more efficient,
4 faster and safer.

5 These accounts, which utilize the latest in
6 technology will be the norm in the very near future.
7 To argue that they are inferior to paper based accounts
8 simply defies logic.

9 Issue Two, there seems to be a
10 misconception that EFT 99 will somehow be a windfall
11 for depository institutions.

12 This misconception assumes that the funds
13 deposited will generate significant investment earnings
14 for banks.

15 Evidence from the electronic benefits
16 transfer program, the EBT program, however, indicates
17 that this scenario is very unlikely because the funds
18 are typically drawn down very quickly.

19 In fact, evidence from the Texas pilot
20 shows that over half of the funds deposited each month
21 were withdrawn immediately, and there are significant

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1 costs involved in providing these accounts.

2 One obvious cost is a need to maintain
3 large amounts of cash on the day before electronic
4 deposits are made, and cash is an asset that earns no
5 interest.

6 Handling large amounts of cash is costly,
7 cash deliveries require extra security. Extra
8 personnel must be available to reload ATMs to meet the
9 withdrawal demands.

10 These expenses are in addition to the
11 ordinary cost of account maintenance and transaction
12 expenses.

13 In other words, there is virtually no
14 potential for a windfall profit for institutions
15 supplying ETA services.

16 Issue Three, There has been concern that
17 electronic delivery will cost recipients more than they
18 currently pay.

19 It is certainly not the intent of EFT 99 to
20 place an additional cost on benefit recipients, but it
21 is important to recognize that even with the paper

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1 check, it is not free for benefit recipients to conduct
2 their financial business.

3 Only individuals who currently cash their
4 checks for free, and pay their bills with cash, pay
5 nothing under the current system.

6 These individuals can get a waiver based on
7 financial hardship and continue to receive a paper
8 check.

9 Competition for the Treasury's ETA
10 contract, and the competition among financial
11 institutions providing low cost electronic accounts to
12 all their consumers, including Federal benefit
13 recipients, will insure that reasonably priced
14 financial services will be available to all consumers.

15 Finally, Issue Four. There has been
16 considerable controversy over depositing benefits into
17 an account controlled by someone other than the person
18 entitled to the payment.

19 We agree with Treasury that all Federal
20 payments should be made to an account at a financial
21 institution.

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1 A related question is whether non-bank
2 firms, such as retailers, check cashers, and money
3 transmitters, should be permitted to establish
4 partnership arrangements with a bank to provide access
5 to Federal payments for beneficial -- for benefit
6 recipients.

7 This has the advantage of giving
8 individuals who are currently using these firms the
9 option to continue to do so if the Treasury's proposed
10 -- proposed rule would allow such partnerships.

11 We believe that the proposal for
12 partnership arrangements has merit, but we must insure
13 that all institutions providing financial services to
14 recipients meet the same high standards of safety and
15 soundness, and offer the same consumer protections that
16 are provided by depository institutions.

17 Therefore, we urge Treasury to regularly
18 review third party distributors to see how these
19 partnership arrangements are working.

20 In conclusion, EFT 99 presents many
21 challenges. It will fundamentally change the way we

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1 use the financial system.

2 It is the beginning of the wide spread
3 conversion from a paper based financial system to a
4 system based on electronics.

5 We believe the Treasury's proposed rule is
6 a reasonable and realistic approach to this massive
7 undertaking.

8 Thank you.

9 MS. LANE: Thank you, Mr. Ogden. Ms. Yost?

10 MS. YOST: My name is Brenda Yost. I'm
11 Senior Vice President of Bank of America in San
12 Francisco.

13 On behalf of Bank of America, I appreciate
14 the opportunity to present our comments on the
15 implementation of EFT 99.

16 Bank of America strongly supports the
17 administration's effort to increase efficiency and
18 payment processing by automating Government payments.

19 For many years, Bank of America has tried
20 to bring banking services to a broader range of
21 customers.

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1 We provide grants to many consumer
2 organizations to train their local constituents on how
3 to use financial services.

4 We provide training as well as branch
5 service, phone service, and ATMs in multiple languages
6 to serve in our communities.

7 In addition, we offer free and low cost
8 accounts to customers. We understand what a huge
9 undertaking EFT 99 is, since in spite of our efforts,
10 and the other banks in California, there is still
11 estimated 10 to 20 percent of California households who
12 are unbanked.

13 What I'd like to do today is focus on two
14 out of -- what we consider -- are three parts of EFT
15 99.

16 Briefly going through those with check
17 recipients who have a deposit account, spending more
18 time on those who don't, and in my written testimony
19 you'll find some comments on vendor payments, but I
20 think I'll skip those today, to leave that going.

21 On the -- those customers who have

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1 accounts, and don't have direct deposit, and I
2 understand from your research, this is about 80 percent
3 of those people receiving checks, hopefully this is the
4 easier group to convert.

5 But we need to remember that the
6 Government, as well as the financial industry has spent
7 the last 20 years trying to convert these people.

8 They've opted not to have their payments
9 received electronically. Some of these are privacy
10 concerns, some of them are the liability of electronic
11 services, and the need to want and see that check.

12 We know, even on the day that social
13 security payments come in to our bank, that we have to
14 have on our phone service an announcement that they've
15 arrived just to reduce the number of calls of people
16 calling to make sure the money showed up.

17 So we understand the concerns there, and
18 feel that it's going to take education to help these
19 people convert.

20 We have a much higher acceptance rate at
21 the bank than some of the other institutions in the

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1 country.

2 Eighty percent of our social security
3 payments are received electronically. And we think
4 this is driven by large amounts of commotions we've
5 done.

6 We have our tellers make an effort to sign
7 our customer's. They have the ability to stamp -- put
8 a stamp on the back of the check and just have the
9 customer sign it, and then we in the back room do all
10 of the work to sign them up.

11 But I think that the final 20 percent is
12 going to be tough to convert from paper, and it's going
13 to take a very strong educational effort to do this, if
14 you're going to try to convert all of these people to
15 direct deposit by January of 1999.

16 However, I think, with the right resources
17 behind it, it can be done. Let me talk a little bit
18 more, though, about the other group.

19 Those that don't have an account today, and
20 you're trying to convert to direct deposit. It's
21 definitely a more problematic group to work with, and

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1 you're estimating it at 10 million.

2 You have to convince them first to open an
3 account, and then sign up for direct deposit, and
4 that's kind of a two step process.

5 If you're a marketing person, it is much
6 harder to get customers to do something in two steps.
7 And you need to do this in 12 to 24 months, depending
8 on when you're going to open the account.

9 I think that -- the -- these people have
10 opted not to have an account. They've opted for a lot
11 of reasons not to, and changing their minds is going to
12 be a difficult obstacle to overcome.

13 Some of these may never want to have an
14 account, so we are supportive of the Government
15 permitting waivers to recipients who -- opening and
16 using an account would be a burden.

17 Some recipients believe that current check
18 cashing options are costly, however -- or check account
19 options, I'm sorry, are costly, however many financial
20 institutions offer free and low cost accounts that are
21 cheaper than cashing a Government check and buying

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1 money orders.

2 Local check cashers in California charge
3 10 to \$15 to cash Government checks. At most of our
4 branches, we charge \$5 or more to cash Government
5 checks, and to pay bills, you additionally would have
6 the cost of a money order.

7 We have -- we offer accounts that are less
8 than \$5 a month, and some free accounts, so I guess our
9 real question has been why, since it's a cheaper option
10 to have an account, have we not been able to convert
11 these people from receiving a check then cashing it?

12 I think it's because many of them don't
13 understand how an account works, or how -- that it is
14 cheaper, or they have some type of history with banks
15 in other countries that may be different than what we
16 experience here, and we may not address those issues.

17 To overcome this, and convert these people,
18 I think that a massive educational campaign will be
19 necessary, and I think that the grass roots
20 organizations should be those people who work to
21 training the recipients, rather than the Government in

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1 financial institutions.

2 These are people they trust, and are in
3 their communities, and can help them do that. If the
4 Government wishes to convert the majority of check
5 recipients to direct deposit, we strongly feel that it
6 will be necessary to spend more than \$10 million over
7 a five year period nationwide.

8 So let me share my example of this, and I
9 know some of you've heard this, but -- and -- how to do
10 an effective public education campaign, and how costly
11 that may be.

12 California right now is the Public
13 Utilities Commission is in the process of educating
14 consumers that we have the ability to choose our own
15 electric company.

16 And this campaign they are spending \$89
17 million in less than a year in just California to do
18 this education.

19 Now, I'm not saying you need to spend the
20 \$89 million, but I think that \$10 million over five
21 years for the entire United States is definitely not

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1 adequate money to fund the campaign.

2 I also believe that as financial services
3 industry, we should be assisting in this effort, but
4 since you're the one saving the \$100 million a year, I
5 really think that the main part of the funding should
6 come from Treasury.

7 We believe that it would best if everyone
8 had an account. I mean, we're a bank. We feel that
9 would be the best way.

10 We understand that's not going to happen,
11 and that some of the people will choose to have
12 waivers, and other people will wait until the end and
13 see what the electronic transfer account looks like.

14 Our belief is it should be a very basic
15 account that only permits electronic deposits and that
16 access to funds be limited to ATMs or point of sale
17 locations.

18 If recipients want additional features,
19 they should open an account at a financial institution
20 that is available today.

21 We would suggest that you might want to

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1 limit it to two cash withdrawals a month, and the
2 reason we say this is limiting the basic number of
3 withdrawals will lower the price of the basic account.

4 And then for those people who want to do
5 additional transactions, they could pay for that, but
6 for those who want the lowest price account, this is
7 probably the best way to go.

8 Another way to limit the price would be to
9 eliminate the mailing of monthly statements and allow
10 clients to receive previous transaction data via the
11 phone.

12 Excuse me. Experience with state EBT
13 programs demonstrates the number of access points for
14 recipients to make purchases and obtain cash is an
15 important issue for the ETA.

16 The financial institutions bidding for the
17 ETA account must guarantee some minimal level of client
18 access.

19 To insure the majority of ATMs are
20 available to ETA account holders, the financial
21 institution who offers the ETA account must pay the ATM

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1 owners the regular commercial rate per transaction.

2 Some state EBT programs could not provide
3 ATM access, because the vendor had underbid the cost of
4 the product, and then could not afford to pay regular
5 interchange on ATM transactions.

6 As a result, the -- there are no ATMs
7 available to clients in those states. And if the
8 Government wants to provide adequate access points for
9 clients, it should not try to regulate ATM convenience
10 fees for these accounts.

11 With the advent of optional ATM convenience
12 fees, over 30,000 new ATMs have been added in the U.S.
13 in the last year and a half.

14 This is a 25 percent increase in locations.
15 In the past, placing an ATM at a low volume location
16 was not cost justified, but convenience fees now
17 encourage ATM owners to place machines at these
18 locations.

19 By remaining silent on ATM convenience fees
20 for the ETA product, the Government will not
21 disadvantage other check recipients that currently have

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1 a deposit account at financial institutions, and pay
2 these fees.

3 Earlier testimony stated that financial
4 institutions would receive a windfall and float revenue
5 on these deposits.

6 And Page also discussed this. The pilot
7 programs actually show a generation of \$.19 per account
8 per month.

9 This definitely does not come close to
10 covering the value of the ETA account.

11 And finally, account providers must have
12 the ability to close accounts that have been abused.
13 Without this ability, the price of ETA accounts would
14 increase because banks will have to build these
15 potential losses into their pricing proposals.

16 I'm going to skip my part on the vendor
17 payment, and you all can look at that later.

18 In summary, I'd like to say that Bank of
19 America believes that EFT 99 is good public policy, and
20 we'll be glad to work with the Government in
21 implementing these major changes to the delivery of

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1 financial services.

2 MS. LANE: Thank you, Ms. Yost. Mr. Ball?

3 MR. BALL: Good morning. My name is James
4 Ball. I'm President of Fast Cash Incorporated. It's
5 a financial services firm located in San Jose,
6 California.

7 I'm also President of California Check
8 Cashers, and I'm here today on behalf of the National
9 Check Cashers Association, of which I'm a member of the
10 Board and also Secretary.

11 And just -- if anyone is looking at the
12 agenda, the National Check Cashers Association is
13 located in Washington, D.C. and Hackensack, New Jersey,
14 rather than San Hosen.

15 The check cashing industry has always been
16 able to adopt itself to meet the changing needs of our
17 customers.

18 We were born, and we've been able to
19 succeed because we meet specific needs of our
20 customers.

21 We provide a number of financial services,

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1 including check cashing, money orders, wire transfer.
2 And many of our check customers -- check cashers also
3 distribute public benefits payments.

4 We accept utility payments. We sell
5 tokens, do faxing. Our customers come to us from a
6 variety -- come to us for a variety of reasons, but we
7 found that most of them come because we're convenient,
8 we're secure, and we're friendly.

9 They know that we can -- that they can
10 receive from -- funds from us immediately without
11 waiting for a paycheck to clear the banking system.

12 They also know that they can buy money
13 orders for a very low fee, and there'll be no bounced
14 checks to worry about with the attending cost of 15 to
15 \$25 per check.

16 For this convenience service, we charge a
17 modest transaction fee, which is commensurate with our
18 costs and a reasonable return.

19 The check cashing industry serve as many
20 individuals now receiving Federal payments who come to
21 our stores for the reasons I've stated.

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1 We want to continue to serve these
2 customers after January, 1999, and are working hard to
3 develop attractive alternatives.

4 Our association is working with a Federal
5 steering committee to -- and we're in the final phases
6 of negotiation with major banks in the country.

7 This program is a product of more than nine
8 months work in which we've been assisted by a
9 prestigious financial services consultant.

10 More than a dozen national companies have
11 responded to our RFI. They recognize that we have
12 ideal locations, and the wherewithal to provide top
13 notch service.

14 Our plan is to create a national network
15 linking all check cashers, so these customers will have
16 a choice of locations for receiving their payments.

17 This is an exciting development that we
18 expect will result in additional services for our
19 customers.

20 It has the potential to bring more
21 financial services to individuals who currently do not

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1 have accounts at financial institutions, and may not be
2 aware of an array of financial services available to
3 them.

4 This is an example of how our industry
5 adopts to customer needs. We appreciate that the
6 proposed regulation would not restrict our ability to
7 enter into partnerships with depository institutions.

8 We urge the Department to promulgate
9 regulations allowing for the widest range of choices
10 for recipients, and I think choice, here is the
11 operative word.

12 Check cashers are confident that we'll be
13 able to complete -- compete successfully for our
14 customers by providing value added services at a
15 competitive cost.

16 Some witnesses have expressed concern that
17 recipients would be required to utilize check cashers
18 in order to receive their payments.

19 We're not asking for any exclusive rights
20 to serve as conduits for these payments. We simply
21 want to be allowed to compete for our customers giving

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1 them a choice.

2 They have chosen us over alternative
3 delivery systems in the past, and we hope to continue
4 to serve them in the future.

5 In fact, a Roper's opinion survey conducted
6 several years ago show that two thirds of our customers
7 also maintain checking accounts.

8 Some individuals have also questioned our
9 fees. I'd like to respond to that concern. We've
10 exercised a great deal of restraint -- restraint in
11 responding to the ill informed and unfair charges about
12 our fees.

13 The typical national fee for cashing a
14 payroll check, or a Government check is less than two
15 percent.

16 These are reasonable fees when one
17 considers that we provide personal service must borrow
18 the funds from banks, and pay for armored car service,
19 heat, rent and insurance.

20 Unlike a bank, we do not have our
21 customers' money on account. The point is that like

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1 any business, the cost to the consumer is the result of
2 the cost of delivering the service at a reasonable --
3 and get a reasonable return.

4 So to this, we'll also be the cost
5 parameter for delivering electronic payments. In the
6 13 states that we are regulated in, there -- we --
7 there is competition as well as in the states that
8 aren't regulated.

9 No check casher can charge above market
10 rate and stay in business very long. In fact, in
11 regulated states, the prevailing fees are below the
12 regulated fee cap.

13 In fact, in California, we have a regulated
14 fee cap of 3 percent, and the average, when our
15 association did a survey was approximately 1.95
16 percent.

17 So even though we're allowed to charge 3
18 percent check cashers in California do not. We
19 anticipate, with regard to Federal payments there will
20 be significant competition not only for the ETA
21 accounts established by the Treasury, but also by other

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1 money service businesses.

2 Check cashers fulfill in the community we
3 serve a definite need. Our customers appreciate our
4 service and continue to utilize us even when
5 alternatives exist.

6 The industry is dynamic. It has grown to
7 serve the evolving needs of our customers. As we enter
8 the electronic age we're working hard to continue to
9 meet those needs.

10 And I'd like to thank you all for allowing
11 me time to speak. Thank you.

12 MS. LANE: Thank you, Mr. Ball. Questions
13 from our panelists?

14 MR. SHELTON: Yes.

15 MS. LANE: Mr. Shelton?

16 MR. SHELTON: I'm going to ask the same
17 question here that I asked of the previous panel, and
18 aside from education in moving people from checks to
19 electronic.

20 I want you to describe a model of services
21 that should be provided to these people, specifically

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1 what that cost should be and it can be arranged, and
2 who should pay for that.

3 And I'd like each of you since you've got
4 a broad group here. We've got a credit union, we've
5 got -- you're representing, Mr. Ogden, the ABA, which
6 is all the banks.

7 We've got a specific bank here, and we've
8 got the check cashers. So I'd like each of you to
9 answer that, please.

10 MS. BAINES: Now, I think one of the
11 significant things is matching the educator with the
12 group that they are educating, Latinos, age group,
13 cultural differences and so forth.

14 I -- I really see that the education
15 process is hands on. If you give someone something to
16 overcome their intimidation and their fear, then they
17 are more likely to succeed.

18 Example, an ATM machine -- the unbanked
19 community are totally unfamiliar with that, and they're
20 also really intimidated by it.

21 MR. SHELTON: Excuse me, ma'am. Maybe I

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1 didn't make myself clear. I think you're talking the
2 education.

3 I want to put that aside. I realize the
4 education is important, and that's a hurdle that we do
5 have to get over, which is a very large hurdle.

6 But I wanted to deal with the specifics --
7 the cost of specific services that would be provided
8 under a model to the people that we're trying to move
9 from checks to electronic funds.

10 So describe a model, what that cost should
11 be, and then who should pay for it.

12 MS. BAINES: Well, I think that there's
13 actually two areas. One you're dealing with the fixed
14 income population, and then the other, you're dealing
15 with a transitory, such as AFDC, which is going to be
16 implemented from -- to work.

17 I don't think the fees and the costs,
18 whether it be funded by Treasury or the financial
19 institution should be anymore than what check cashing
20 services presently cost -- charge them.

21 So as a model, we would base some of their

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1 successes and adopt them in to financial institutions.
2 It is the most attractive to, of course, work in
3 partnership with them.

4 So in answer to that question, the fee --
5 I think that financial institutions can take a certain
6 percentage of that.

7 But I do feel that Treasury is going to
8 have to be a little more realistic in the expenses and
9 the cost of what has to be done.

10 But I think that they're a very good
11 business example of success in creating models that
12 follow in partnership with them, or duplication of
13 them.

14 MR. OGDEN: Thank you. Mr. Shelton, let me
15 give you an example from our bank.

16 MR. SHELTON: Sure.

17 MR. OGDEN: Obviously we've been watching
18 and studying this whole -- whole EFT 99 issue closely.
19 We cash about a third of the checks in our county, and
20 when the Eagle flies on the 3rd, our lobbies fill up,
21 and we know -- and we know that the senior citizens are

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1 not going to be kind to us if we don't respond some way
2 to the EFT 99.

3 I think that's true throughout the country.
4 We have -- we have introduced two types of accounts.
5 We call them D-1, deposit 1, and deposit 2.

6 Deposit 2 turns out to be the more popular
7 one. Basically, it's an electronic mail box that you
8 pay \$3 for per month, and you can -- you come to our
9 teller lines and withdrawal of your money.

10 Obviously this will be an option to the
11 Government ETA account, or to a waiver. We would like
12 to see our D-1 account be accepted.

13 I'll say frankly, there's -- there's little
14 interest in it right now, but it's basically an all
15 electronic account.

16 For \$2 a month you can have your check
17 automatically deposited at the bank, and then you can
18 use the ATM card that comes with it at any of our ATMs
19 unlimited withdrawals.

20 There -- obviously you would incur a fee if
21 you went to a foreign ATM. The other thing that I

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1 think is an important feature is our ATM card can be
2 used at a point of sale terminal.

3 And this really is the model, I think where
4 we're -- where we're going with all this. Last week,
5 believe it or not, I was shopping for groceries as I
6 sometimes do, at our local super Walmart.

7 And as you come up to the counter, you --
8 and pay for the goods and services that you have bought
9 there, you have many ways to tender payment.

10 But one of them is simply to present my ATM
11 card, not -- all -- a debit -- it can be an offline
12 debit card as well, but just my simple ATM card from
13 the Britton and Koontz Bank, I can tender that, and run
14 it through their -- punch in my pin number and pay for
15 those services.

16 And the key there, is I never come to cash
17 with this. It's safer, it's easy. Now what we're
18 proposing with our D-1 account is to try to get
19 consumers who are -- and I like this word, cash
20 consumers, as opposed to unbanked -- cash consumers to
21 -- to realize the beauty of this.

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1 I think this type of model is being
2 encouraged by the EBT systems that are being introduced
3 by the various states and the like, but as you can see,
4 we're trying to come up with different options.

5 But as far as pricing and features, I think
6 you're going to see these below \$5. They will give a
7 lot of flexibility on use at point of sale terminals,
8 and for ATMs within the banks' ATM family.

9 MR. SHELTON: Ms. Yost.

10 MS. YOST: I think that there are a lot of
11 accounts today available, so, as I said in my
12 testimony, I think the ETA should be pretty limited on
13 functionality, and have electronic deposits only.

14 Have ATM and point of sale access as the
15 outbound methods, and to limit the cost, you should
16 limit the number of ATM transactions.

17 And my recommendation would be in the range
18 of two. And then allow them to have additional
19 transactions for an additional fee.

20 Also, that statements should be electronic
21 or by phone, as opposed to being mailed, which will

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1 costs.

2 And also, we have some problems with
3 homeless on where to send statements. So that becomes
4 another issue.

5 On the price side, I'd say that it's really
6 a free market issue. I think it would differ by
7 markets in this country because it's -- you know, we're
8 in a number of states, and we don't charge the same in
9 every state, because the market dictates what the
10 pricing scenarios look like.

11 But I would agree that it's probably
12 somewhere around the five or five dollar range
13 currently.

14 But I also think that the Government
15 shouldn't be setting that price, but should see --

16 MR. SHELTON: Should or should not?

17 MS. YOST: Should not.

18 MR. SHELTON: Okay.

19 MS. YOST: I think that they should put the
20 product out for bid and see what kind of bids they get
21 back on price.

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1 MR. SHELTON: Mr. Ball?

2 MR. BALL: I -- I agree with Ms. Yost. I
3 -- I don't think the Government should be setting the
4 price.

5 I think from a practical point of view I --
6 there are a couple of systems currently in place the
7 check cashers are using.

8 One of them, I believe, is called Benefits
9 Express, and I believe the cost is around two dollars.
10 And the -- and the way it works, is that the person
11 signs a form which then allows the bank to deliver --
12 the funds are delivered electronically to the bank.

13 The bank then downloads it into our
14 computer. We can generate a check, and I'm not using
15 the system right now, but it -- it -- I've signed up
16 for it.

17 The -- the check is then generated at the
18 store, and I believe the cost is somewhere around two
19 dollars.

20 There's a -- we then take that hard copy,
21 and we give them the papers. So we're still dealing

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1 with the paper system.

2 We hand that paper system -- that paper
3 check to the customer, and the customer at that point
4 can choose to cash it or can choose to, you know, take
5 it elsewhere.

6 And there's no cost by the check casher to
7 the customer. The cost is simply the cost that the
8 bank imposes for acting as the intermediary.

9 There -- the -- I spoke about a steering
10 committee, and I believe they've arrived at a
11 conclusion.

12 They've chosen a bank -- I'm not sure if I
13 should say who it is -- a major national bank, but --
14 because I don't think it's been announced yet.

15 I just received a notice yesterday in my
16 fax, and I believe the cost was somewhere around \$1.15
17 -- \$1.15 to \$1.20 --

18 MR. SHELTON: For transactions?

19 MR. BALL: For transaction, and that will
20 be the national association -- that's -- that'll be the
21 -- the delivery system the national association is

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1 going to bat.

2 And hopefully, as a national, we can get
3 all the state check cashers to participate in that
4 delivery system, so we have a unified delivery system
5 within the United States, which I -- I think would be
6 fairly cost efficient.

7 Now, as far as who's going to pay for it,
8 whether the -- the recipient or the Government, I -- I
9 can't answer that.

10 I mean, ideally, it would be a lot easier
11 for us if the Government paid for it, because it's a
12 much easier sell, but, you know --

13 (Laughter.)

14 MR. SHELTON: I understand.

15 MR. STAPLES: Sticking with finances for a
16 minute, Mr. Ogden, you mentioned that in the Texas
17 pilot, most -- most people drew down most of the money
18 in the one payment.

19 Of course, that was one free withdrawal in
20 that program as well. You also mentioned that in your
21 own state, you had unlimited free withdrawals.

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1 Did -- do you find that people --

2 MR. OGDEN: At our bank?

3 MR. STAPLES: -- yeah, at your bank. Do --
4 do you find that people withdraw most in that first
5 withdrawal of the month under that scenario, too, or is
6 it spread out more evenly?

7 MR. OGDEN: We are finding that they are
8 withdrawing all of their money, because, you know this
9 -- this initiative -- we talk about moving from checks
10 to electronic.

11 There -- there's also the issue of moving
12 from a cash basis economy to -- and skipping the paper
13 based one, and going directly to the electronic, and I
14 -- I think that, you know, whether it's in Natchez,
15 Mississippi, or Los Angeles, California, many of the
16 people that do not have bank accounts for whatever
17 reason are -- are operating in that cash base economy,
18 and it's going to be painful to change.

19 MR. STAPLES: Uh, huh.

20 MR. OGDEN: But -- but let's just face it.
21 This is what a lot of this is about is, is -- is as --

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1 as the electronic age is -- arises, you -- you're
2 leaving this cash based economy, and it changes the way
3 we handle our money.

4 People are very sensitive about those kind
5 of issues. And as a banker, I feel very much in the
6 middle of all this, and it's going to be painful.

7 We're going to hear from many senior
8 citizens on the third of the month, and they're not
9 going to like changing, but we all recognize we're
10 going to have to.

11 Now, let me emphasize the waiver again, is
12 -- is a -- I think a great idea. Many -- many people
13 that just cannot change will -- will have the
14 opportunity to -- to select a waiver.

15 And as another generation comes along, we
16 will have the opportunity through the educational
17 program to -- to make the changes to get the -- get the
18 word out.

19 MS. STAPLES: Ms. Yost, you mentioned that
20 we have a formidable challenge in front of us for the
21 paper check to get them moved by the deadline.

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1 Have you had experience with our new quick
2 start program where the financial institutions are
3 signing up people directly, with us?

4 MS. YOST: Through the phone?

5 MR. STAPLES: Yeah.

6 MS. YOST: Yeah. We do that -- no.

7 MR. STAPLES: Oh -- no, electronically.

8 MS. YOST: Yeah. We're doing some of that
9 in the background.

10 MR. STAPLES: Okay.

11 MS. YOST: And so that's where -- to -- to
12 move people through our lines faster, what we've done
13 is, we have the stamp that we put on the back of the
14 check, the customer signs it, and then we can do the
15 electronic piece --

16 MR. STAPLES: Okay.

17 MS. YOST: -- on -- in our back room, just
18 because it's faster for everybody.

19 MS. LANE: Ms. Yost, you mentioned a figure
20 of \$89 million that the public utilities are spending
21 in the State of California.

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1 I'm just curious, do you know more about
2 the breakdown of how that money is being spent? For
3 example, do you know how much of it might be going for
4 paid television advertising, which tends to be quite
5 expensive, I think?

6 MS. YOST: Yeah. I don't know that today,
7 but I will get that for you. One of the things,
8 though, they -- they've decided that because they have
9 a short time period, which is the same barrier you all
10 are going to have, to get the message out that that's
11 the amount they need to spend in California.

12 And I know probably everyone in this room
13 got a direct mail package from them this past week that
14 talks about options and what we can do.

15 MS. LANE: Thank you.

16 MR. HAMMOND: Following up on that just a
17 little bit, is -- who -- is the Public Utility
18 Commission paying the \$89 million cost?

19 MS. YOST: Yes.

20 MR. HAMMOND: And they're doing that what
21 -- out of the fees that they charge the utilities,

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1 typically?

2 MS. YOST: Yes.

3 MS. LANE: Other questions?

4 MR. STAPLES: Yes. I -- I have a -- a
5 point for the record, since it was mentioned that we're
6 going to save \$100 million.

7 MS. LANE: Okay.

8 MR. STAPLES: It -- we don't save the \$100
9 million. The tax payers saves the \$100 million.

10 (Laughter.

11 And since two thirds of it -- I have to
12 speak out on this one, since the social security trust
13 funds are at issue here, it's two thirds of the money
14 we're talking about in social security payments is just
15 money that Treasury doesn't draw down from social
16 security trust funds. So --

17 MS. YOST: But I also think the more money
18 you put into education on the front end, the --

19 MR. STAPLES: Sure.

20 MS. YOST: -- more people you convert, and
21 the more likely you will --

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1 MR. STAPLES: Absolutely.

2 MS. YOST: -- be to achieve that goal.

3 MR. STAPLES: You won't hear any argument
4 from me.

5 MR. HAMMOND: I wanted to follow up if I
6 could just very briefly with Mr. Ogden. You've made a
7 comment that from I -- and I assume that this is from
8 the standpoint of the ADA, that you're very comfortable
9 with the notion that there should be, you know,
10 partnerships, or that the flexibility in a voluntary
11 account relationship for a bank to partner with
12 alternative outlets, or alternative financial service
13 providers is a good idea.

14 You then went on to say, though, that they
15 should be subject to high standards, and I was
16 wondering if you had any ideas or suggestions on how
17 you would go about kind of monitoring a notion of high
18 standards in that kind of environment.

19 MR. OGDEN: Well, what I was referring to
20 there is, the protection being a depository
21 institution.

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1 I have been racking my brains trying to
2 think how these partnership arrangements are really
3 going to work.

4 And I'm frankly -- and maybe it's just my
5 own limitations, but I'm at somewhat of a loss of how
6 all of these partner -- partner -- we talk about
7 partnering relationships, but how they're really going
8 to work in the final analysis.

9 And -- and we're not against that at all.
10 We're -- we're looking for solutions to this -- this
11 thorny problem.

12 But as we look for those solutions, I think
13 we, as bankers, are reluctant to see things get too far
14 out the depository -- outside of the depository system,
15 where you have the FDIC insurance, where you have the
16 consumer protection regulations.

17 MR. HAMMOND: Thank you.

18 MR. BRYANT: I'd like to say something to
19 that.

20 MR. HAMMOND: Sure.

21 MR. BALL: There are certain states that

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1 come under the State Banking Commission, and, well, we
2 have had -- in fact, our California Check Cashers
3 Association asked legislation that 1) put a cap on
4 fees, and 2) actually have as we -- I believe that we
5 need a register with this -- with a state regulatory
6 agency, and I can't remember which one it is, but I do
7 know there's -- I believe it's the -- the Department of
8 Justice, actually, we're fingerprinted.

9 And so, I'm in complete agreement that
10 there should be some kind of regulatory control. And
11 for those states that do have regulation, I -- I think
12 it would be fairly easy.

13 Of course, I've said I think there are only
14 13 states in the union that do have that, but I'm in
15 agreement to that there should be some kind of control.

16 MR. OGDEN: One other point I'd like to
17 have made in regard -- I thought the statistics shown
18 in the Treasury study that was done earlier this year,
19 the results that were released early this year, were
20 interesting in that they showed that the people that do
21 not have bank accounts, 60 percent of them cash their

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1 checks in banks today.

2 In other words, they see banks as -- as
3 their banks. They don't feel unbanked at all. Another
4 20 percent use grocery stores.

5 So 80 percent of the people out there are
6 coming to point of sale terminals, or to -- to the bank
7 teller lines already.

8 And I think that's a very significant
9 figure, and -- and it shows, again, that -- that the
10 banking industry is where a lot of the solutions are
11 going to have to arise.

12 MR. SHELTON: Changing direction just
13 slightly here, we've talked about how to get them to
14 sign up, or to go to electronic -- I haven't heard
15 anybody mention anything about incentives.

16 And since the world kind of runs by
17 incentives, "buy gas at my gas station, and I'll give
18 you something -- or buy at my store, and I'll give you
19 something -- and come to my bank and I'll give you a
20 free toaster, or used to be toasters."

21 It's plastic things nowadays, I think at

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1 our banks. Have any of you thought about, or -- or do
2 you pursue the business, or would you want to pursue
3 the business, or it's not worth it to do incentives or
4 something like that to get these individuals?

5 Of course, maybe the Government could do
6 some incentives, too, I agree, and that would be your
7 first direction to point to the Government and say,
8 "You give them something to do it."

9 But I'm going to ask for your side of it.

10 MR. OGDEN: Notice on my D-1 account that
11 it was a dollar cheaper than my D-2 account. So that
12 was -- we were thinking incentives when we designed
13 that, trying to make it easy.

14 Also, we -- we offered the accounts early,
15 thinking that number one, we wanted to not scare the
16 people, but -- but inform people that this is, you
17 know, change is coming, and here's a way for -- for you
18 to respond.

19 But beyond those incentives, I have not
20 thought of any others.

21 MS. BAINES: Yes, we've explored, excuse

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1 me. We've explored a lot of possibilities. We're not
2 thinking of bringing just the incubation of all of this
3 -- all of us together here.

4 So, you know, a lot of it's just an
5 exploratory adventure at this point, but because the
6 important issue is to have more focus on saving the
7 consumer investing in your own life, your own self,
8 some of the possibilities as far as an incentive is
9 earning bonus points, in which it makes it possible for
10 us to buy Treasury bonds, and provide a Treasury bond
11 to -- to the client, or to the depositor.

12 So, I'd like to see it stay within the
13 framework where it just expands their knowledge,
14 experience and education, and availability of financial
15 services in -- in the institution.

16 MS. YOST: We have a number of accounts
17 that have a discount for direct deposit, so that would
18 carry over to these accounts as well.

19 MR. SHELTON: What I was thinking is, you
20 know, the Government ought to take our \$100 million and
21 give each one of those people \$10 to come in and sign

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1 up and stay on.

2 (Laughter.)

3 MR. STOUT: I won't let that happen.

4 MR. SHELTON: You won't let that happen?

5 MR. STOUT: I don't think so.

6 MS. YOST: Well, you know, one of the
7 things on the electronic side when you're marketing, if
8 you can get them to do things the first time, it's much
9 easier the second time, which is why, when we introduce
10 point of sale service you saw a lot of people getting
11 free soda or whatever the grocery store was offering.

12 And one they've done the transaction, then
13 they're more likely to do it again. So it may be worth
14 the Government's effort to look at that.

15 MR. SHELTON: Well, I've often thought
16 about it only because I know in the Department of
17 Veterans Affairs, for us to do a single mailer to all
18 of our check recipients, I think it costs us somewhere
19 between 300 to \$400,000, and I often said, "If I send
20 them the money one time to go sign up, I'd be through,
21 maybe if they would do it." So, anyway.

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1 MR. OGDEN: We would be glad to promote
2 that idea.

3 (Laughter.)

4 MR. SHELTON: Send you the money and you'll
5 do it, right?

6 MR. OGDEN: Well, it is worth noting, I
7 think. And sometimes we may forget this but often
8 these are permanent shifts that are made.

9 So it's not something that needs to be
10 advertised over just a few months. At least our
11 experience is almost every -- no one moves from
12 electronic back to paper check.

13 MR. SHELTON: Right.

14 MR. OGDEN: So, it's -- it's good for all
15 of use to keep that notion in mind, as we invest here.

16 MS. LANE: Any other questions? Okay. I'd
17 like to thank this panel. If I could have your
18 attention for just a moment.

19 We're going to take a 45 minute break for
20 lunch, and I have some suggestion on where you might
21 eat, because I know a lot of places you wouldn't get

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1 out of there in 45 minutes.

2 There's a place across the street called
3 the Breadwinner in the Chase building. It's on Grand.
4 They serve soup, salad and sandwiches.

5 There's also a Mexican restaurant called
6 Lily's which is right down the street from here. It's
7 across from the Breadwinner in the Stillwell Hotel.

8 And then, finally, there's the Federal
9 Reserve Cafeteria that you are welcome to use, although
10 you will have to pay cash.

11 And the cafeteria -- no electronics, no.
12 I -- I'm sorry to report, but the cafeteria is located
13 on this floor.

14 You head back toward the elevators and then
15 just keep going, I think.

16 One point I need to mention. The -- the
17 Federal Reserve Public Affairs people have asked us to
18 mention this, is that everyone must wear their badges
19 and have the badges visible at all times.

20 And this is the only floor to which you
21 have access in this building. The guards will be

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1 looking for these badges, and I -- I think the Federal
2 Reserve has been very kind to us, and -- and courteous
3 and very generous in setting this meeting up, so we can
4 accommodate that request as our -- as their guests.

5 So if you would return at 1:15, if you're
6 coming back for this -- the afternoon session. Thank
7 you.

8 (Whereupon, at 12:30 p.m., a lunch recess
9 was taken, to reconvene at 1:15 p.m.)

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(1:30 P.M.)

MS. LANE: Let me introduce Panel number 3. Anne Miller, is a member of the AARP Board of Directors.

Chancela Al-Mansour is with the San Fernando Valley Neighborhood Legal Services.

Laura Fry is with the Legal Aid Foundation of Los Angeles.

And Jim Bliesner is with the San Diego City County Reinvestment Task Force.

We could begin with Ms. Miller.

MS. MILLER: Good afternoon, members of the Panel, guest Panelists, and members of the audience. Thank you on behalf of the American Association of Retired Persons.

As you said, my name is Anne Miller, and I'm a member of the AARP Board of Directors. Today, I want to comment on hardship waivers under EFT 99.

Hardship waivers are essential to assuring that many Federal benefit recipients will not bear additional costs or burdens as a result of the

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1 requirement that Federal benefits be received by
2 Electronic Funds Transferred.

3 AARP's interest in this mandate stems from
4 the hardship it may impose on many older persons, okay.
5 Especially those without bank accounts.

6 A bank account is essential to participate
7 in EFT. Nationally, some 20 million persons receive
8 their social security and their SSI payments by check.

9 Some 6.5 million of these do not have bank
10 accounts. The rest have accounts, but prefer checks
11 over direct deposit.

12 In California, language barriers and low
13 educational attainment, costs that showed serious
14 limitations for many persons over age 65.

15 Over a quarter million seniors have
16 difficulty with speaking English, and close to a
17 million have not completed high school.

18 And while almost 20 percent of California
19 seniors over age 65 are Hispanic, Asian, Black or
20 Native American, these groups comprise almost one third
21 of persons over age 50.

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1 Moreover, this minority proportion is
2 increasing. While we don't know how many of these
3 persons are unbanked, it has been established by --
4 that language difficulty, lower educational level, and
5 minority status increase the likelihood of being
6 unbanked.

7 AARP is therefore particularly concerned
8 about the adequacy of provisions in the final rule to:

9 1) Assist social security and SSI
10 beneficiaries who currently receive their benefits by
11 check to obtain waivers or sign up for Electronic Funds
12 Transfer.

13 2) Protect recipients from paying excessive
14 fees and charges to obtain their benefits. And,

15 3) Inform and educate the diverse public
16 regarding the requirements and workings of EFT 99.

17 We are pleased to see the self certifying
18 waivers for physical disability, geographic barriers,
19 and financial hardship has been incorporated into the
20 proposed rule.

21 However, the Association was disappointed

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1 by Treasury's decision to deny hardship waivers based
2 on mental disability, low literacy or language
3 barriers.

4 We strongly urge Treasury to reverse this
5 decision. Given the vulnerability of diverse
6 recipients who can be adversely affected by these
7 provisions, especially older persons, it is essential
8 that the hardship waiver provisions have broad
9 application and be widely publicized.

10 A report prepared for Treasury indicates
11 that most check recipients are aware of the advantages
12 of direct deposit.

13 And the reasons why they may prefer checks
14 vary and depend on individual circumstances. The major
15 concerns of recipients about direct deposit include,
16 uncertainty regarding whether when a payment will
17 arrive, problems accessing money if an account is
18 frozen under some dispute, such as divorce, and the
19 potential difficulty of resolving a problem if the
20 problem does not arrive on schedule -- payment, I'm
21 sorry -- if the payment does not arrive on schedule.

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1 Problems always arrive on schedule.

2 (Laughter.)

3 Also, many older check recipients prefer a
4 tangible payment that they can personally manage, while
5 others dislike the idea of writing checks or using
6 computers to obtain cash.

7 A key factor to note is that 48 percent of
8 all Federal recipients in the Treasury's study object
9 -- object to mandatory EFT.

10 Only 28 percent support it. Despite the
11 benefits that may result from Electronic Funds
12 Transfer, a considerable number of Federal payment
13 benefit recipients will still endure a hardship if
14 required to receive their payment this way.

15 AARP looks forward to working with you to
16 implement this new law to meet the needs of all
17 concerned.

18 And I -- this is just a brief presentation
19 of AARP's policy, and I think that you have the full
20 testimony within the copies I have for you.

21 And I think you, very much.

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1 MS. LANE: Thank you, Ms. Miller. Ms. Al-
2 Mansour?

3 MS. AL-MANSOUR: Thank you. My name is
4 Chancela Al-Mansour. I'm an attorney with San Fernando
5 Valley Neighborhood Legal Services.

6 San Fernando Valley Neighborhood Legal
7 Services I'll just call as Legal Services from now on,
8 commends the Treasury for requesting and including our
9 views on these critical issues that affect our low
10 income communities.

11 Legal Services is -- San Fernando Legal
12 Services is an agency which serves over 350,000 low
13 income individuals in large parts of Los Angeles
14 County.

15 Many of our residents reside in communities
16 where banking services are minimal, or at best -- are
17 minimal at best, or non-existent.

18 As a result, as in many other parts of the
19 country, many of our clients have come to rely on check
20 cashing outlets, often to their financial detriment.

21 While the cost of services provided by

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1 check cashers is regulated by law in California, these
2 costs are still exorbitant.

3 In addition, in some of -- in some cases,
4 check cashers are flagrantly violating these laws by
5 charging higher interest rates, imposing addition fees,
6 in store purchase requirements, and offering
7 unregulated pay day loans and cash advances at interest
8 rates that far exceed the above limits.

9 But even though our clients are often
10 exploited by these check cashing outlets, these
11 businesses have managed to identify and meet our
12 clients' diverse needs for basic financial services.

13 For example, they tend to be widespread,
14 and conveniently located, and most offer extended hours
15 and money orders -- oftentimes at exorbitant fees, and
16 they also provide opportunities for on-site payment of
17 utilities and telephone services.

18 We ask that the Treasury examine not only
19 the banking needs of recipients, but also the non-
20 banking needs of recipients, which include the -- the
21 provision of an ability to provide payment for utility

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1 services while they're there for rent payments and so
2 forth.

3 We share in principle the goal of the
4 Treasury to offer these mainstream banking services to
5 the Federal benefits recipients.

6 However, we do feel that there should be
7 widespread access to ATMs, and to the point of service
8 machines for convenient and affordable withdrawals.

9 In short, our major flaws are -- with the
10 proposed regulations are as follows:

11 These regulations exclude voluntary
12 accounts held by the majority of recipients affected.

13 The electronic transfer accounts do not
14 truly open up affordable mainstream banking services
15 for our clients.

16 The current regulations do not allow for
17 currently bank recipients to transfer to a new EFT
18 account.

19 The regulations fail to meet our clients'
20 special needs, particularly concerning geographic
21 accessibility, financial vulnerability and language and

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1 literacy barriers.

2 The regulations lack a range of consumer
3 protections, and waivers on who must EFTs beginning in
4 1999 are too narrow.

5 We ask that the Treasury consider the fact
6 that our clients' current access to financial services
7 and to regulated and bonded financial institutions is
8 inadequate.

9 Right now, in the San Fernando Valley,
10 there have been merges of several large banks, and that
11 has created a -- a surge in the number of bank
12 closures.

13 In addition to the bank closures being an
14 issue, there is a shortage of public transportation in
15 the Valley.

16 Furthermore, the -- the Valley is -- has
17 extreme heat for several months during the year, making
18 walking or waiting for a bus unbearable, or sometimes
19 deadly for our elderly and disabled clients.

20 Pocomima, which is where my office is
21 located is, -- represents a microchasm of Los Angeles.

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1 It's a community of 81,000 residents, and it has the
2 highest concentration of low income and minority
3 persons in the San Fernando Valley.

4 However, for its 81,000 residents, POCOIMA
5 only has one bank, and it has only had one bank for the
6 last 25 years.

7 Glendale Federal just recently merged with
8 that one bank, which was currently -- which was
9 formerly Trans World Bank, and in the last year they
10 have opened the first and only ATM in POCOIMA.

11 That ATM has limited hours, and it's --
12 usually closes at 11 p.m. at night because of security
13 reasons.

14 However, that just illustrates the lack of
15 banking services in our -- in our area. We ask the
16 Treasury to consider our clients' special needs that
17 would prevent their mainstream access to financial
18 services.

19 As I mentioned before, there is a need for
20 ATMs as well. Many of our elderly clients do not speak
21 English, and they may be functionally illiterate.

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1 There are also other problems with ATMs as
2 well that we would like the Treasury to consider as --
3 in terms of the small font of the print, the
4 insufficient lighting, the height of the screens, the
5 fact that if you are arthritic it may be difficult to
6 use the control buttons, and in addition to these
7 physical constraints, our elderly clients' lack of
8 technological training may also inhibit the ATM's
9 accessibility.

10 And we ask that the most important thing is
11 that if you do contract with financial institutions
12 that you make N person -- N bank teller services
13 available to our clients at no cost, or at the very
14 least, at a minimal cost.

15 Furthermore, ATMs provide a little privacy
16 and no security in Southern California. Unlike back
17 east, ATMs are on the street.

18 You -- they are not card only accessible
19 where you are in a secured area -- small area as they
20 are in New York and other parts of the east coast.

21 Here, all ATMs are on the street, and

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1 there's no security at all.

2 We also ask -- we also would like to point
3 out that these regulations are not consistent with the
4 stated goal of mainstreaming our clients.

5 The proposed regulations say that they
6 would like to make certain that recipients have access
7 to their funds at a reasonable cost.

8 While these protections do not apply to the
9 voluntary accounts, and that's an important fact.

10 Furthermore, we believe that -- that this
11 is an illegal narrowing of the statute's mandate that
12 all recipients in EFT be provided access to an account
13 at -- at a reasonable cost.

14 If that is the mandate, that all recipients
15 have the access to reasonable cost, then you have to
16 include the voluntary accounts.

17 For recipients who are currently banked at
18 a non-regulated financial institution, we ask that you
19 permit them to transfer to an EFT protected account
20 with a -- with an approved financial institution or a
21 non-profit agency.

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1 The ETA of which I'm speaking is a full
2 service bank account, and that's another thing.

3 We would like these ETAs to be full service
4 bank accounts, not just deposit only bank accounts in
5 which only the Federal Government can make deposits,
6 but allow them to be the full banking services that
7 most other customers are able to enjoy.

8 We also wanted to state that these
9 regulations do not go far enough in ensuring that the
10 bank accounts are affordable.

11 The Treasury's own demographic study found
12 that the greatest -- one of the greatest barriers for
13 this disserved population is affordability.

14 Therefore it is imperative that the
15 requirements related to reasonable costs be much more
16 specific.

17 There should be no -- no extremely
18 restricted service charges on these accounts. There
19 should be no charges in terms -- on the checking
20 accounts, and no charges for withdrawals or ATMs on the
21 point of service machines.

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1 And also, there should be no service charge
2 for people to be able to access their accounts by going
3 into a bank, especially given the special needs of many
4 elderly and disabled persons.

5 The -- the question -- the Treasury asked
6 in some of its -- some of its questions whether or not
7 a debit card based account is desirable. Yes.

8 Legal services believe that a debit card
9 based account would be beneficial in expanding the
10 access to financial services.

11 However, free money management training
12 should be offered as it is often difficult to keep an
13 accounting of your money spent with debit card
14 accounts.

15 Furthermore, the provision of debit cards
16 should not replace the ability to access in person
17 teller services.

18 The Treasury asked if the count -- excuse
19 me, the cost of the account or other account factors
20 should be the most important factor for selecting the
21 account structure.

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1 Our position is that while the cost should
2 be the most important factor, other objectives have to
3 be taken into account, such as geographic
4 accessibility, and community reinvestment commitment.

5 At the same time the Treasury should be
6 broad in how it accesses the -- the cost of the
7 account.

8 Specifically, it should analyze the cost of
9 servicing the account, and the cost associated with the
10 checking, and the cost also for withdrawals at ATMs and
11 point of service machines.

12 And one of the other questions that the
13 Treasury asks is, whether or not the account should be
14 structured to provide only a basic withdrawal service
15 at the lowest possible cost with additional service
16 charges, or should the account offer a range of
17 services.

18 Our position is that a free and
19 unrestricted withdrawal service is necessary, because
20 our clients are only using these machines to meet their
21 basic everyday needs.

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1 However, any additional service charges
2 should be reviewed for their financial viability. For
3 example, Bank of America charges two dollars if the ATM
4 user requests a copy of his or her bank statement, even
5 if no withdrawal is made.

6 These charges should not be permitted for
7 these accounts. In addition, all such accounts should
8 be monitored to insure that the financial institutions
9 adhere to such charging -- charge limitations.

10 The -- the person from Bank of America, who
11 spoke before this Panel, suggested then an alternative
12 to the banks providing -- sending monthly statements to
13 recipients to reflect the receipt of the -- of the EFT
14 payment in their account, would be for them to access
15 their account through the phone customer service.

16 Well, many elderly clients still have
17 rotary phones, and would not -- and if they did
18 actually use the service, they would have to speak with
19 the -- an actual person, and they would incur a \$.50
20 charge.

21 Furthermore, Bank of America's phone remedy

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1 does not address the need for tangible proof, which is
2 what the problem is.

3 One of the other things we would not want,
4 is for recipients to be charged for their withdrawals.
5 They should have unlimited access to withdrawals, and
6 they should also have access to being able to see what
7 is happening to their accounts at all times.

8 I'm just going to run down some
9 recommendations. First of all, the -- a debit card for
10 use at any ATM or point of service machine be available
11 to the banking customers, that -- that they -- there
12 should be a maximum on their service charges on their
13 accounts and on their checking accounts, and on their
14 withdrawals.

15 There should be on access to -- on-site
16 access to affordable money orders and opportunities to
17 pay for public services, and there should be an
18 optional electronic payment to third parties, such as
19 landlords, utility services, as well as the free access
20 to the in person teller services.

21 One other important point is that the

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1 Treasury -- we feel that the Treasury is not using this
2 opportunity to -- opportunity exert its influence over
3 banking institutions in order to optimize the
4 recipients' access to mainstream banking services.

5 The EFT requirement could present a viable
6 benefit for low income people who have not
7 traditionally been able to afford or access bank
8 accounts and financial services, and bank institutions.

9 But the Treasury has to look at this
10 opportunity as an opportunity to facilitate the
11 development of initiative of -- excuse me, innovative
12 low cost -- low cost making accounts.

13 For example, the Treasury could play this
14 role by regulating the fee charges which currently
15 present barriers for the millions of recipients who
16 remain unbanked.

17 If not, the Treasury's goal of introducing
18 Federal benefit recipients to mainstream banking
19 services would not be realized for its poorest
20 recipients.

21 Once again, we ask that the Treasury

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1 Department require banking examiners to monitor the EFT
2 and the banking institutions for their specific
3 compliance under the Community Reinvestment Act.

4 We ask that you only contract with banking
5 institutions that have high CRA performance ratings,
6 and we ask that you apply the principles of this CRA
7 compliance to those financial institutions that are not
8 held accountable under -- under its provisions because
9 they're too small.

10 Furthermore, we ask that -- that you look
11 at geographic accessibility. As well, that you look at
12 the financial vulnerability.

13 On that point, let me just say that there
14 is -- we ask that there be a clear protection against
15 unlawful attachments.

16 One of the most serious barriers next to
17 affordability, against Federal recipients choosing to
18 open up a bank account, is the fear that a judgment and
19 judgment creditors will attach to these funds in their
20 bank accounts, even though such attachments are clearly
21 illegal.

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1 For example, Federal Statutes governing
2 social security, SSI and Veterans' benefits clearly
3 prohibit attachment of these benefits but any -- by any
4 third parties, but yet it happens all the time.

5 We represent those clients where there are
6 attachments to their bank accounts. So -- so we ask
7 that these regulations indicate up front that such
8 attachments are clearly illegal, and provide a prompt
9 error resolution procedure to deal with these unlawful
10 attachments.

11 We ask that there be a protection against
12 Governmental error. For instance, if there is a -- a
13 tardy -- if the Government is tardy in actually putting
14 the funds into the account, that the recipient should
15 not be penalized because they've made payments relying
16 -- based on their reliance upon these accounts.

17 And we ask that you insure the
18 dissemination of accurate information and timely
19 information to recipients.

20 And you could do this through community
21 organizations that are already here, and we meet with

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1 our recipients.

2 Also, we ask that you look at the Federal
3 Reserve Board's Regulation E, which affords a set of
4 rights and protections, and that you also apply these
5 basic consumer protections under the EFT program.

6 And the last thing I wanted to talk about
7 is the waivers. We find that the waivers are far too
8 narrow.

9 The waivers that only go to the recipients
10 who -- I'll just summarize the waivers by saying that
11 they're far too narrow, and that they have to be opened
12 up.

13 And in my comments, I state more with the
14 waivers. We especially feel that for recipients with
15 mental disabilities that -- that there should be
16 waivers provided for those as well.

17 And also for those that -- based on
18 language and -- and educational barriers.

19 In conclusion, we ask that you -- we ask
20 that you regulate all these Federal bank accounts
21 established by recipients so that they payments are

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1 routed to Federally regulated financial institutions
2 and unions, that you make these accounts geographically
3 accessible to -- to our recipients, that the bank
4 accounts remain affordable, and that consumer
5 protections apply, and that the hardship waivers be
6 made available to a broader range of recipients.

7 Thank you, very much.

8 MS. LANE: Thank you, for your testimony.

9 Ms. Fry?

10 MS. FRY: Thank you for the opportunity to
11 comment on these regulations. EFT 99 is a complicated
12 undertaking, and we commend you for the work you've
13 done in grappling with the issues.

14 There are real potential benefits in EFT,
15 especially the opportunity to bring those who will use
16 fringe bankers into the mainstream banking economy with
17 the services and protections that it offers.

18 In my comments today, I'd like to focus on
19 two issues, access for SSI recipients to their
20 benefits, and protection of SSI recipients and their
21 benefits.

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1 First the issue of access, which includes
2 concerns about language, mental disability and
3 literacy, geography, and financial hardship.

4 For the first two points especially, it is
5 critical to consider that the accommodations needed by
6 those who can function in a setting based on
7 interpersonal communications, but who won't be able to
8 function in a system that requires that most
9 transactions go through machines.

10 First, language. In its analysis, Treasury
11 states that the lack of fluency is only a short --
12 English fluency is only a short term barrier that can
13 be addressed through educational programs, and through
14 ATMs that offer multiple languages.

15 For California, and Los Angeles in
16 particular, this approach is inadequate. Nationally,
17 12 percent of those on SSI are immigrants.

18 In Los Angeles, more than 47 percent of the
19 case load is composed of immigrants. Russian, Chinese,
20 Vietnamese, Korean and then Spanish are the most common
21 languages, but only the tip of the iceberg.

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1 Many immigrants from Central and South
2 America speak one of many indigenous languages. They
3 only know Spanish when they learn it here.

4 Materials for more than 20 languages would
5 probably be needed. At the not especially diverse
6 school down the street from me, among the 600 kids,
7 there are 22 primary languages.

8 Many recipients have learned enough English
9 to use ATMs, but some, especially among the elderly or
10 mentally disabled, who came here as refugees or
11 assylees, including a percentage who are U.S. citizens,
12 have not, and probably cannot.

13 Some are not literate in their own
14 languages. They have learned to cash a check, and can
15 handle paper money.

16 But navigating the complexities of an ATM
17 with its decisionry and ample opportunities for
18 missteps in a language that you don't understand is
19 another matter.

20 Such recipients will be vulnerable.
21 Repeated errors on the machine can cause it to eat the

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1 card, as some of us know, or worse, yet, it can attract
2 the help of someone who is abundantly helpful,
3 especially when it comes to helping themselves to some
4 of your money.

5 Even if an impressive 30 languages were
6 available at all ATMs and point of sale devices, some
7 recipients would still need an exemption from EFT if
8 it's very narrowly targeted on -- with electronic
9 services.

10 Therefore, both language -- lack of
11 language fluency in any language that's available, the
12 ATMs or point of sale devices in the immediate area,
13 and by that I mean a half mile radius, should be added
14 to Section 208.4(B) as reasons for obtaining waivers
15 from EFT payments.

16 Similar -- second and similarly, for some
17 with mental disabilities and limited literacy, the
18 abstract concept of an account, let alone the demands
19 of the machine, be it ATM or point of sale, are more
20 than they can manage.

21 They, again, can cash a paper check and

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1 manage the paper money, and can thereby remain
2 independent.

3 Forcing them to function in an EFT
4 environment will force them to give up hard won
5 independence.

6 The response that such recipients should
7 simply use a representative payee is wrong on two
8 counts.

9 First, it is an inadequate response under
10 the ADA. Second, even more urgently, many recipients
11 will not be able to find such payees.

12 Already, many recipients who need them
13 cannot find them. The potential for even more people
14 to end up depending on payees they do not know well,
15 and cannot necessarily trust, and who may be serving
16 with no supervision or accountability -- as paying for
17 a large number of people is a serious problem.

18 To echo Congresswoman Waters -- you've got
19 me doing it -- be very generous -- be very generous
20 with your waivers -- more generous than you currently
21 are, and by that -- in the regulations, and in the

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1 granting of them -- the actual on the ground doing of
2 it.

3 Third, regarding geography. More is needed
4 in the final regulations about the coverage Treasury
5 will require the institutions that it chooses for the
6 ETA accounts.

7 We wholeheartedly agree that only Federally
8 insured financial institutions should act as Treasury's
9 agents for the ETA account.

10 But the need remains for all possible
11 pressure to be brought to bear -- to increase the
12 availability of such services in our, of course,
13 communities.

14 Under these regulations as they stand, many
15 in poor communities will either be denied benefits of
16 E -- EFT because of where they live, or worse, they
17 will be frightened into getting an account that is in
18 fact a constant physical hardship for them to access.

19 We believe that Treasury can and should do
20 more through the vehicle of EFT to help those living in
21 areas underserved by Federally insured financial

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1 institutions.

2 Fourth, regarding financial hardship, we
3 applaud Treasury for making this waiver available. We
4 are concerned, though, that the regulations will in
5 fact leave many open to harm.

6 Now, only those who do not have an account
7 will be allowed to have a waiver for financial
8 hardship.

9 Those who sign up for an account at the
10 urging of Treasury or of a bank or worse, possibly a
11 check casher who then charges them additional fees, but
12 find they're unable to afford it after a few months are
13 going to be stuck.

14 The won't be permitted to get a way to then
15 access the ETA accounts if that meets their needs more
16 neatly -- more -- more efficiently -- more cost
17 efficiently.

18 Treasury proposes neither to regulate the
19 accounts that people open voluntarily to comply with
20 EFT 99, nor to allow such recipients to switch to an
21 ETA account if it better meets their needs.

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1 Treasury ought to do both. At a bare
2 minimum, it must do the second, that is make the
3 regulated ETA accounts widely available.

4 Failing to do so simply puts too many poor
5 people at risk.

6 Turning to protection, Treasury's decision
7 to place the ETA accounts at Federally insured
8 institutions is crucial.

9 It brings us back to geography, though. A
10 further step is necessary. Our concern is that the
11 insured financial institutions as you've heard already,
12 will subcontract with uninsured, unregulated fringe
13 bankers that are located in the areas where they
14 provide -- where the mainstream banks do not provide
15 services.

16 Check cashing outlets are ready to help.
17 As others have told you in the last 10 years, the fees
18 charged to cash social security checks have risen 37
19 percent.

20 Also a favorite product for their captive
21 audience is the payday loan, currently offered at

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1 effective annual interest rates ranging from 261
2 percent to 1,820 percent.

3 Already in LA, TANIF, AFDC checks have
4 unfortunately, and we hope temporarily, then route it
5 through the secondary and often exploitive banking
6 system.

7 Treasury should not further the abuse by
8 handing over a second captive market. It should not
9 permit those holding ETA accounts, nor for that matter
10 any -- matter any institution holding accounts that
11 recipients voluntarily open to comply with EFT
12 recipient -- requirements to contract out its access
13 services to businesses of this nature, especially if
14 the recipients are charged a fee by the check casher on
15 top of the ETA account fees.

16 Benefits must be accessible through the
17 financial -- Federally insured financial institutions,
18 and not just through HUD drowning devices.

19 If subcontracting is found to be absolutely
20 necessary, I would strongly urge you to make it very
21 short term, very tightly controlled, and to not cost

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1 recipients additional fees.

2 Second, regarding protections, Federal law
3 does protect, as Chancela said, against attachment,
4 levy garnishment, other legal processes.

5 However, many recipients are afraid that if
6 they put their money in a bank account, a creditor will
7 take it, judging by the cases they -- that we see,
8 they're right.

9 We're currently assisting an SSI recipient
10 who owed money on a student loan for, by the way,
11 training in a vocational school that closed before she
12 could finish her course.

13 In this case, the bank responded to a levy,
14 and gave all the money in the woman's account to the
15 Student Loan Commission.

16 We've helped to recover the money. She
17 very nearly became homeless. Last year, in the Central
18 Valley, another SSI recipient with direct deposit
19 checked her account one day, and discovered about 2,000
20 more than she expected in it.

21 She went to the bank and spoke to the

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1 manager who assured her everything was okay. She spent
2 the money.

3 Thereafter, the bank discovered it had
4 deposited it -- another customer's tax refund in her
5 account.

6 The bank solved its problem quite simply.
7 It took all of the woman's SSI deposits for the next
8 three months.

9 The bank, by the way, is the largest bank
10 in the state which all Californians know by its
11 initials.

12 By the time she found legal aid, this woman
13 was already homeless and living in a shelter. We don't
14 know the end of the story, because before we could get
15 the money back for her, she disappeared.

16 Banks do ignore the statutory protections.
17 Poor people don't have the luxury of time. Its
18 regulations, and in any contracts regarding ETA
19 accounts, Treasury needs to make crystal clear that SSI
20 funds are not to be taken to satisfy creditors or to
21 correct a bank's own errors.

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1 Treasury's educational material should
2 inform recipients of these protections, and better yet,
3 there should be a promise of a response from Treasury
4 to reports of violations.

5 This is a small but important part of
6 encouraging recipients to trust electronic transfer and
7 the banks.

8 A final issue about protections. We're
9 concerned about the messages from Treasury, and marking
10 by the banks and others around EFT 99.

11 Under the proposed rule, the protections
12 that Treasury does offer, it offers only to those who
13 get ETA accounts.

14 At the same time, Treasury's analysis
15 telegraphs a desire for minimal involvement in the
16 business of banking those without accounts.

17 We fear the combination of two desires,
18 Treasury's for a smaller number of ETA accounts, and
19 banks, not to be subject to the consumer protections
20 required for the ETA accounts.

21 Any educational and marketing materials

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1 must fully inform recipients that ETA accounts will be
2 available and what potential benefits of those accounts
3 might be in comparison with the account that somebody
4 right now is telling them they really -- really need.

5 Finally, Section 208.10 is very overbroad.
6 Last but not least, we recommend that it be withdrawn.
7 The grandest of discretion permits an unfettered bypass
8 of the entire regulatory process.

9 To summarize the recommendations, and I
10 really haven't touched on, as others have, I -- I
11 support all the recommendations on generous ATM access,
12 and access beyond ATMs.

13 But at a minimum, the regulations should be
14 amended -- expanded to include -- the waiver should be
15 expanded to include those with limited fluency or
16 literacy -- literacy in English, mental disability or
17 financial hardship, including those who have a bank
18 account.

19 Federal benefits payments are to be
20 deposited only at Federally insured regulated banks
21 where the recipients are guaranteed access to their

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1 money directly through financial institutions, as I
2 said earlier, any subcontracting arrangements, short-
3 term while you get the rest of the people up and
4 running.

5 The cost of the accounts are established
6 and maintained at reasonable levels, and Federally
7 established protections apply to all of the accounts
8 established to comply with EFT.

9 Those holding ETA or voluntary established
10 accounts are strictly prohibited from set off
11 attachment levy, and the Treasury shall monitor and act
12 to rectify any violations.

13 And finally, Section 208.10 is deleted.

14 Thank you.

15 MS. LANE: Thank you for your testimony.
16 Mr. Bliesner?

17 MR. BLIESNER: Thank you for your -- your
18 consent to hold the hearings in -- on the west coast.
19 We appreciate the opportunity to speak to you.

20 My name is Jim Bliesner. I'm the Director
21 of the San Diego City County Reinvestment Task Force.

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1 The Task Force is a joint powers quasi public agency
2 established by the City and the County of San Diego,
3 chaired by a councilman, a member of the Board of
4 Supervisors with five banks, five community
5 organizations, and three separate cities.

6 It's been in existence since 1977. One of
7 the issues that the Task Force has watched closely over
8 the last two or three years, and has developed an
9 opinion on is, electronic deposit of welfare checks.

10 The County of San Diego instituted an
11 electronic benefits transfer program over a year ago
12 for persons receiving general relief, and more recently
13 for persons receiving aid for dependent children.

14 General relief was distributed from check
15 -- check cashing outlets, and AFDC was distributed to
16 bank accounts selected by the AFDC recipient as a
17 voluntary program.

18 There are 47,827 persons receiving AFDC in
19 San Diego County. Twenty percent of those have
20 volunteered over the last year and a half for direct
21 deposit.

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1 Ninety-eight percent of those who are
2 involved with direct deposit are satisfied with their
3 decision according to a recent poll conducted by the
4 welfare department.

5 Ninety-eight percent of users do not report
6 any problems. Of those persons who used the service,
7 there is a high level of satisfaction.

8 However, of those who do not use the
9 service, which is the majority of all AFD recipients --
10 AFDC recipients, there is a lingering reluctance to
11 sign up and participate.

12 That reluctance persists in spite of
13 ongoing education, outreach, opportunities to sign up,
14 encouragement by case workers, special mailers,
15 displays in lobbies, outreach through the welfare
16 offices, contact whenever there's a change in the
17 condition of their payment.

18 They are again encouraged to sign up, but
19 the reluctance persists. The question is why, and does
20 the answer foretell future problems for the Treasury
21 Department effort?

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1 The primary reason given is, lack of access
2 to banking facilities. In the case of AFDC, where the
3 families are low income and residency is in low income
4 neighborhoods, there is a diminishing access to bank
5 branches.

6 And it will continue. In San Diego low
7 income communities, there has been a one third decrease
8 in bank branches.

9 More banks have closed in San Diego than in
10 San Francisco and Los Angeles combined over the last
11 eight years.

12 I don't think this is a unique phenomena.
13 I think there are other cities across the country that
14 are experiencing bank downsizing in the form of a
15 reduction of banking services in low income
16 communities.

17 This was exacerbated by the savings and
18 loan failure, but is continued to occur in the context
19 of mergers.

20 Do AFT recipients live in these
21 neighborhoods, and will their access be restricted as

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1 well?

2 Has anyone examined the geographical
3 location of Government support check services? I think
4 you can map it.

5 I think it would be very easy to geo-code
6 it, and I think my guess would be that you will find
7 most of those people within low and moderate income
8 census tracts, where the highest reduction of banking
9 service is occurring.

10 What should be done to address this issue,
11 or maybe the assumption is that the recipients should
12 accommodate this deficiency and perhaps over two
13 generations, or perhaps through some changes in
14 demographics, they will accommodate to the process.

15 The second reason why AFDC recipients did
16 not sign up for the service is cost. There is -- we
17 surveyed of those persons participating, which banks do
18 they participate in, and what is the cost to the
19 customer?

20 Of course, there's a correlation between
21 cost to the customer, and the level of involvement.

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1 The lower the cost, the higher the level of
2 participation in that individual bank accounts.

3 Some banks do not charge for the service,
4 others do. The service can be, and it's our assumption
5 that the service can be provided at no cost.

6 The Treasury is providing the banking
7 industry a huge amount of capital with this program,
8 and the float on this capital is enough to insure that
9 all participating institutions can make a profit on the
10 deposits without charging the customer.

11 I wonder if you have surveyed, or if you
12 have received information about the potential earnings
13 that the banking industry is expecting, and what kind
14 -- what period of time do they expect to have this
15 money, and what rate of return would they expect to get
16 on it over that period of time?

17 And to what extent does that compensate for
18 the need to charge for these services?

19 I think the Task Force's experience is
20 almost that you should be charging them to -- to
21 participate.

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1 A provision should be made that all
2 institutions receiving more than a specified level of
3 accounts be required to provide the service free.

4 The third point it, it's been the position
5 of the City County Reinvestment Task Force, and
6 particularly the community organizations that check
7 cashing outlets are not appropriate facilities for the
8 receipt of electronic transfers of Government checks.

9 The potential for usurious rates for
10 services in these facilities is high. Check cashing
11 outlets are not regulated and insured institutionally.

12 In fact, the only relevant regulation
13 related to customer services at check cashing outlets
14 must abide by are Federal racketeering standards.

15 The -- the former spokesperson from the
16 industry who said that they were regulated, and
17 regulated by the Justice Department, was exactly
18 correct.

19 I strongly encourage you to have your legal
20 counsel examine the history of this industry in the
21 United States, and our affiliation with undesirable

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1 members of the community.

2 I don't think it's somebody who you want to
3 be doing business with. It's our assessment that check
4 cashing outlets are not contributing members of the
5 communities in which they do business.

6 Rather, they are a part of the economic
7 drain to these communities, and contribute to community
8 crime by virtue of their rate structure, their facility
9 upkeep, and their complete absence from any
10 constructive community efforts.

11 They should not be allowed to participate
12 in any way with the electronic transfer program. No
13 give of public funds should be received by this
14 industry.

15 Thank you, very much.

16 MS. LANE: Thank you for your -- your
17 testimony. We'll go to questions from the Panel, now.
18 Who would like to be first?

19 MR. HAMMOND: I'll take it.

20 MS. LANE: Mr. Hammond, okay.

21 MR. HAMMOND: I always get to go first. No

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1 -- I just wanted to follow up on pretty much a
2 recurring theme in that I think all four of the
3 testimonies, which had to do with the expansion of the
4 waivers, and particularly having to deal with language
5 and literacy.

6 And in particular, what I'd like to follow
7 up is, is the issue really one of language? Is it one
8 of literacy, or is it truly one of -- of both, because
9 I think one of the perspectives that -- that people
10 have seen in our -- in -- in our research may have to
11 do with literacy, and I was curious to see what your
12 observations are on that.

13 I'll throw it open to the -- the Panel.

14 MS. MILLER: I think it has to do with
15 both, actually. And the -- the language barrier
16 particularly in California is quite an issue.

17 Of course, I'm interested nationally as the
18 AARP Director, but I'm really concerned about
19 California..

20 MS. FRY: I also think it's both. We are
21 dealing with a large number of individuals, and so it's

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1 going to vary from individual to individual.

2 I think both components are very strong.
3 In some individuals both are present, on some
4 individuals, one or the other.

5 So, what more to say on that really.

6 MR. BLIESNER: I don't have data that would
7 speak to that issue.

8 MR. HAMMOND: Do you want to ask? Go
9 ahead.

10 MS. LEITER: I just -- I was going to ask,
11 well all three women on the panel, when -- when you
12 talked about broadening the standards for the waiver,
13 you mentioned mental.

14 I just wanted to get an idea. Would you
15 consider the fact that it would be unlikely that the
16 elderly would be in a position to remember a pin number
17 to access point of sale or ATM machines that -- that
18 alone would then qualify, you know, for a waiver?

19 Is that what you would envision that --
20 that type of thing?

21 MS. AL-MANSOUR: Actually, I address that

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1 on my written comments. Non -- not only is it -- not
2 only would there be a problem and not necessarily
3 remembering the pin number, but it would also increase
4 the vulnerability of that person in terms of security.

5 If they're standing in an outdoor ATM going
6 through their purse, looking for something in -- in
7 writing, and trying to read it, it just increases the
8 amount of time that they're on the street and
9 financially vulnerable -- I mean, excuse me, personally
10 vulnerable at any -- for any attacks.

11 MS. FRY: I also believe that that should
12 be included as, it could be characterized as mental
13 disability.

14 It could also be a reason that you cannot
15 use this style of account and should not be forced to.

16 MR. STAPLES: Ms. Fry?

17 MS. FRY: Yes.

18 MR. STAPLES: You mentioned waivers in a
19 slightly different context, and you just sort of made
20 passing reference to, "and on the street" meaning, I
21 think, how we --

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1 MS. FRY: Yes

2 MR. STAPLES: -- get the waiver
3 administered.

4 MS. FRY: Yes.

5 MR. STAPLES: Do you have any thoughts for
6 us on how you think that should best be done?

7 MS. FRY: Well, I -- I am glad to see there
8 is self certification, and my concern is that as it
9 happens in the individual offices, if somebody is
10 taking an application that there might be pressure, "Oh
11 no, you really can manage this, can't you?"

12 I -- you know, I'm concerned partly as a
13 training issue for the individual agencies that this is
14 what it means.

15 If someone says, "I can't do it." That's
16 the end of the point.

17 MR. STAPLES: Oh, huh.

18 MS. FRY: Okay.

19 MR. STAPLES: Okay. Another subject.
20 Attachments has come up in this testimony, and in
21 earlier testimony as well.

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1 While I'm not expert on it, my -- my memory
2 of this one is that the attachments frequently occur
3 when the source of funds is something in addition to
4 the social security in our case, or SSI, otherwise it
5 would be erroneous attachments.

6 Now, having said that, the ETA account
7 could be limited to the Federal payments going into it
8 in the form of SSA or SSI, or whatever the program
9 might be.

10 Or it could be opened so that other funds
11 could be deposited to the account. Do you have views
12 on that, vis a vis your comments and concerns about
13 attachments?

14 MS. AL-MANSOUR: I think that the present
15 constant to the limitation of the accounts suggest the
16 EFT deposits, and the problem with that is that, once
17 again, the Treasury goal is to help people become more
18 financially secure, and so forth.

19 It would be difficult for them to receive
20 other deposits if they, you know, so chose to do -- to
21 do so.

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1 But there -- there would be the problem
2 there that there could be the attachments placed on the
3 account, and it would make them more vulnerable.

4 That -- that is true. And once again,
5 these attachments are illegal, and that's why what I
6 asked is that that be a clear statement that you send
7 that message out to the financial institutions so that
8 the problems -- I mean, not only is it a problem with
9 third parties going in and trying to attach these
10 accounts, but when the financial institutions which
11 contract with you do something that's illegal, then
12 that's something that should be rectified, and
13 immediately proactively.

14 MS. LANE: On moment. Yeah, we need to
15 change the tape? Okay. If we could just take a short
16 break.

17 (Whereupon, at 2:14 p.m., a brief recess
18 was taken.)

19 MS. LANE: Ms. Fry.

20 MS. FRY: Yeah, I would encourage allowing
21 deposit of other funds. I mean to the extent you can

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1 encourage savings amongst -- especially among, you
2 know, my population being the very lowest of low
3 income, I think that you should do it.

4 At the same time, you know, these
5 attachment problems that I'm talking about are not
6 necessarily attaching anything except the clearly
7 protected funds.

8 So I do think there does need to be more
9 done in policing that.

10 MR. STAPLES: Well, there are obviously
11 going to be errors.

12 MS. FRY: Yeah. There can be errors, and
13 the problem is that the time it takes to fix that error
14 is too long, and this is an opportunity to say it.

15 MR. STAPLES: The reason I was asking the
16 question, I -- I don't know if you were here for the
17 introductions this morning.

18 I'm with the Social Security
19 Administration, so -- and the attachments issue is one
20 that we encounter today.

21 MS. FRY: Uh, huh.

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1 MR. STAPLES: You don't need to have
2 electronic things to get into the attachments issue.

3 MS. FRY: Right.

4 MR. STAPLES: But this was an opportunity,
5 if one wanted to go that way, under this program, to
6 restrict the account in such a way that it be easy to
7 identify.

8 MS. FRY: Yeah. There -- you're going to
9 have records about, you know --

10 MR. STAPLES: Right.

11 MS. FRY: -- how much has come in and how
12 much has gone out.

13 MR. STAPLES: Uh, huh. Okay.

14 MR. SHELTON: So that I can I guess get a
15 matter of record here, and may some understanding of
16 education for myself, you talk about people cannot
17 communicate, they're illiterate, or the language
18 barrier because of the diverse society, and so on,
19 could you make it a matter of how do they function now?

20 Because they're in normal everyday life,
21 besides the things we're talking about here. Changes

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1 come about and so on.

2 So how do they go about functioning and --
3 and doing the things that are every day life issues
4 now?

5 MS. FRY: Interpersonal action --
6 interpersonal interactions, communications, depending
7 on friends, relatives.

8 Sometimes those who are paid to take care
9 of you and that unfortunately is an area of abuse at
10 times.

11 So forcing -- cutting off those
12 communications is really putting a burden on people.
13 Now they're -- they're dependent for yet another step.

14 I mean, they may already be dependent on
15 somebody who takes them around, and then they have a
16 relationship with somebody in the neighborhood who will
17 help them cash a check, do all of these things.

18 I'm not saying this is ideal, but it is
19 working. I think Maxine Waters really did make the
20 point well.

21 These people have figured out a way to do

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1 things. If it works for them, and you know, don't make
2 them be the ones who pay for your need to save some
3 money on this.

4 You know, this -- this population really
5 should be left alone and to slowly maybe partly as --
6 as the younger generation grows into this, there --
7 some of these -- these resistances will lower.

8 MR. SHELTON: Ms. Al-Mansour.

9 MS. AL-MANSOUR: There's also a quality of
10 life issue here. For a lot of our elderly, because
11 we've gotten more into a technological area, you don't
12 have the mailman, the postal deliver won't be coming as
13 often, and so forth, they have very little contact with
14 -- with people and society.

15 Their children move away and so forth. If
16 they are forced to use a machine, and to access only a
17 machine, it most definitely would also be a detriment
18 to their quality of life as well.

19 MR. SHELTON: What about processing the
20 waiver itself?

21 MS. AL-MANSOUR: You mean in terms of

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1 procedures, or?

2 MR. SHELTON: I guess they're going to get
3 a piece of paper, they're going to get something to
4 say, "This is what's going to happen to you, and do you
5 want to waive it?"

6 Are they going to be capable of doing that,
7 or able to do that? I don't know, I'm just.

8 MS. FRY: I'm hoping that the educational
9 materials the Treasury sends out will be top notch,
10 first rate, appropriate literacy levels --

11 MR. SHELTON: I'm sure they will.

12 MS. FRY: I'm counting on it, and -- and
13 that there will be lots of community education.

14 MR. SHELTON: Okay.

15 MS. AL-MANSOUR: We work together.

16 MR. SHELTON: Yes, I see that.

17 MS. AL-MANSOUR: But -- but also the
18 community based organizations be given appropriate
19 funding as well, whether it's asking for additional
20 appropriations from Congress, or whatever, so that
21 organizations that are here, and that have -- are going

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1 to be following us will be provided the funds that they
2 need in order to support the communities that they
3 serve.

4 MR. SHELTON: Uh, huh.

5 MS. MILLER: Well, I can tell you that AARP
6 is already gearing up, and when we do know the -- the
7 rules -- the final rule, we will then have strategy
8 plans to help address this.

9 But we are definitely gearing up at this
10 point particularly at the education level.

11 MS. LANE: Ms. Al-Mansour, you talked a --
12 a bit about the ETA account, and you mentioned that you
13 thought it should be full service, and that cost was a
14 most important factor.

15 One of the things we've heard from other
16 witnesses is that the more features you add to the
17 account, the more likely it will cost.

18 So what -- what would you say if you had to
19 strike a balance there? What -- what would you do? Is
20 it important to keep that cost down low, and if so,
21 what features would you say might be optional?

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1 MS. AL-MANSOUR: Well, I think that some of
2 the costs are -- are fictitious costs, as Jim Bliesner
3 said.

4 The banks will be making some money on the
5 float. And like the example I raised with Bank of
6 America, where if you just want to get a paper
7 accounting of -- of what's in your account, it costs
8 two dollars to do that if you're not withdrawing money.

9 I mean it doesn't make sense that it would
10 cost two dollars just to go to an ATM and to get a --
11 a slip showing what's in -- in your account, or cost
12 four dollars if you want to go inside and -- and
13 actually speak to a teller as opposed to using, you
14 know the ATM machine.

15 So, I guess I would question that --

16 MS. LANE: You're saying that you question
17 some of the costs.

18 MS. AL-MANSOUR: Exactly. Exactly.

19 MR. SHELTON: I'm going to follow up on
20 that question, going back to, if you were here earlier
21 my model questions -- the model and the cost and so on,

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1 particularly you, Ms. Al-Mansour, is that you said,
2 "Keep the costs affordable," but everything you listed,
3 all the services you listed you said should be free.

4 I got a little confused of what's free and
5 what's affordable, so could you build that model for me
6 of saying, what would be the services of the model, and
7 what do you think it should cost.

8 MS. MILLER: I don't think I can do that
9 for you, but I certainly --

10 MR. SHELTON: I -- I'm sorry, I was
11 addressing Ms. Al-Mansour.

12 MS. AL-MANSOUR: Al-Mansour, thank you.
13 Although if you want to --

14 MR. SHELTON: You can try it, too. I'll
15 ask all of you.

16 MS. MILLER: I haven't got the answer to
17 that.

18 MR. SHELTON: Well, in particular, she had
19 so much in her testimony about the cost, and -- and
20 what should be free and what shouldn't, you know,
21 should be affordable.

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1 I wasn't clear where the definition was.

2 MS. AL-MANSOUR: Well, definitely -- okay,
3 when you look at checking services, I can see how there
4 is more of a cost that a bank would incur in providing
5 checks.

6 However, they should do a minimum number of
7 -- of checks that people can -- can actually draft.
8 The same thing with -- withdrawals.

9 There should be a minimum number of
10 withdrawals that people can do at a -- free. I guess
11 what I'm saying is, yes, we are asking for a lot, in
12 maybe the bankers' opinion, in terms of what they
13 provide, but the bottom line is, is that before there's
14 actually the study done to show, as Jim Bliesner said,
15 exactly how much money they will be receiving, and
16 through this and through the floats and everything
17 else, then they should not be allowed to financially
18 benefit at the detriment of the clients.

19 Because, essentially, the money is being
20 taken from them -- from their limited source that they
21 already have.

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1 So only once, you know, the studies are
2 done, and so forth, should I think -- it should be
3 determined all these -- these costs are too -- too high
4 and so forth -- excuse me, too high for the banks to
5 incur.

6 But we should -- the bottom line is, the
7 recipient should not be the ones who are put at a
8 detriment because the banks and these other third party
9 check cashers and so forth are -- are profiting at
10 their loss.

11 MR. SHELTON: How would you --

12 MS. FRY: I think Ms. Fry has a --

13 MR. SHELTON: Oh, excuse me. Go ahead.

14 MS. FRY: I'd actually like to just say two
15 things. I think some of the testimony has drawn
16 comparisons between EBT state experiences in
17 distributing TANIF funds and social security SSI.

18 Keep in mind that SSI and social security
19 especially recipients are going to be receiving more
20 money.

21 There's more money to be made off of these

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1 accounts by the bankers. Also, I'm sorry, I'm losing
2 my train of thought, but I would concur also that there
3 need to be a minimum number of transactions.

4 If you're not -- are not going to allow any
5 checks, you've got to keep in mind, how are people
6 going to pay their rent?

7 That's going to be a sizeable portion. If
8 your ATM or whatever your withdrawal devise is limited
9 to 200 or \$300, how do you pay your 500 or 600 or \$700
10 rent?

11 You probably can't have 700 or even \$600
12 rent on these fund levels, but these are things you
13 need to keep in mind too.

14 MR. SHELTON: Right. How -- how do you --
15 oh, excuse me. Go ahead.

16 MR. BLIESNER: I belong to a credit union,
17 and I don't pay any costs on my checking account. I
18 have unlimited free withdrawal from my ATMs, and I have
19 an in-house ID system that allows me to go to present
20 a credit card, or I mean the credit union card for my
21 identity.

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1 Why shouldn't these recipients be treated
2 like anyone else in our society, that they are a
3 banking customer, and that the bank uses their money,
4 and they should be afforded those -- that level of
5 service for -- for free.

6 MR. SHELTON: Uh, huh.

7 MR. BLIESNER: By virtue of the fact that
8 they have signed up, and the bank knows every single
9 month that a check's going to be coming from the
10 Federal Government, you can make money off of guarantee
11 receipt of money from the Federal Government.

12 I mean, you can -- you can buy bonds. You
13 can make expenditures in secondary markets based upon
14 a relative degree of certainty that you're -- that that
15 check is going to be coming from the Federal Government
16 every month into that ATM -- into that account.

17 That is security -- long term access to
18 those funds. So in our opinion, that they should have
19 -- they should be in bank ID systems.

20 We find that with for -- with immigrant
21 populations that the process of attaining

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1 identification, you know, credit cards, licenses, so on
2 and so forth, is cumbersome, and some of them don't get
3 around to it, particularly the older ones.

4 That they should be able to -- when they
5 establish the account, I think Union Bank has a program
6 where they have an in house process for checking the
7 background of the person, giving them a Union Bank ID
8 card that allows them to access the services at the
9 bank.

10 MR. SHELTON: How do you -- I'm talking
11 about balance for a minute. How do you balance, bring
12 a balance to those people who are not signed up, versus
13 those that have been brave enough to sign up, yet the
14 individuals, let's say, are in the same economic
15 conditions.

16 They receive approximately the same amount
17 of money, have the same economic benefits as -- in both
18 groups, but we're giving something to those that have
19 it and not to the others -- what -- do you have any
20 suggestions for that, because I worry about those brave
21 people that did already sign up.

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1 MS. AL-MANSOUR: My suggestion is that when
2 you contract with financial institutions, particularly
3 -- especially the larger ones to take these -- the
4 unbanked recipients, that you put language in the
5 contract so that the same benefits be applied
6 retroactively for those recipients that are also
7 currently banked with that financial institution.

8 MR. SHELTON: Okay.

9 MS. FRY: And you also leave them the hatch
10 that I asked for, that if their account isn't working,
11 fees have gone up, the banks merged, things aren't what
12 they used to be --

13 MR. SHELTON: Then get out.

14 MS. FRY: -- then get out.

15 MR. SHELTON: Uh, huh. Okay. That's all I
16 have.

17 MS. LANE: Any other questions from -- Tom?

18 MR. STAPLES: This is for Mr. Bliesner. I
19 was wondering, I wanted to follow up a little bit on
20 your experience with the San Diego EFT program, and the
21 very low level of acceptance.

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1 And I was wondering how much of that you
2 would attribute to the fact that, especially for
3 welfare benefits, and -- and TANIF in particular, that
4 that may be more of a transitory payment, and where
5 someone is looking at only receiving it for a limited
6 period of time, as opposed to something like social
7 security, which is, you know, extended out through the
8 natural life of the individual.

9 Would you -- would you think that there's
10 -- there's a component of that in the low acceptance?

11 MR. BLIESNER: Yes, definitely. I don't
12 have -- the survey didn't ask that question, but off
13 hand, based upon interviews with the Welfare
14 Department, I would say that definitely has an impact.

15 There's -- and I think they could -- they
16 could justify a correlation between permanence of
17 receipt and volume of participation in the volunteer
18 program.

19 I mean some people just don't think they're
20 going to be on the AFDC very long, so they say, "Well,
21 I'm not going to get involved with that."

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1 Some of them expect to be there for a
2 while, and I think we can find a correlation there.

3 MR. STAPLES: Thank you, very much. On --
4 in that program, I've heard a lot mention of the fact
5 that people tend to think that there's lots of float in
6 the system given the numbers of social security benefit
7 recipients.

8 Did they do any -- did you do any studies
9 in that particular program about how quickly the money
10 went in and went out in terms of float gain?

11 MR. BLIESNER: Well --

12 MR. STAPLES: I mean you had mentioned
13 something about you think that they -- the banks ought
14 to pay them to have an account because they're making
15 so much money, and I -- I was just -- because we did --
16 we have a -- had a pilot program in the state of Texas,
17 where we had like over there a several year period, 30
18 some thousand people using an account very similar to
19 what, you know, you're talking about.

20 And the float aspects of that account were
21 like \$.19 per month per recipient, and I was just

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1 wondering if -- if some are -- there are results out of
2 our pilot program in Texas differ in some way,
3 particularly in even Don's point about the transient
4 nature of that -- that particular kind of account
5 relationship.

6 So you didn't do any studies on that?

7 MR. BLIESNER: I -- I don't have -- it's a
8 bank information access to make the judgment in terms
9 of an internal analysis of how long people take to
10 spend the money.

11 MR. STAPLES: Right.

12 MR. BLIESNER: We -- we find that on AFDC
13 checks that -- that there's roughly between 45 and 55
14 percent where the money is in the account for longer
15 than one week.

16 That you get the rent and the utilities,
17 and it comes out incrementally, depending upon what
18 their relationship with the bank is.

19 We also found that one third --

20 MR. STAPLES: Do you have statistics on
21 that?

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1 MR. BLIESNER: Pardon?

2 MR. STAPLES: Do you have statistics on
3 that that you could release, or --

4 MR. BLIESNER: I'm paraphrasing the
5 information from -- that I have back in the office. I
6 can --

7 MR. STAPLES: Okay. If there is something
8 you can share afterwards, I'd appreciate it.

9 MR. BLIESNER: Okay.

10 MR. STAPLES: Because we have many studies
11 of floats going on, and I'm curious about your --

12 MR. BLIESNER: Do you?

13 MR. STAPLES: -- experience might have
14 been.

15 MR. BLIESNER: Uh, huh. We found also that
16 of those persons who don't participate, that the place
17 that they cash their checks, in order -- were banks,
18 check cashing outlets, and stores -- grocery stores.

19 One third in -- in grocery stores. And so
20 -- the -- the debit card system in that kind of a
21 situation might have some merit.

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1 MR. STOUT: I'd like to ask a question
2 about one part of the population that we tend not to
3 focus on. And I understand why, because the unbanked
4 community will be probably the most difficult to try
5 and provide a solution here.

6 But I just think there is as big a
7 population as the unbanked that we need to work with
8 between now and January 1, 1999. This is those
9 individuals who receive a check but currently have an
10 ongoing relationship with a financial institution.

11 They have checking accounts. They -- they
12 now deal in -- in that kind of world, yet continue to
13 receive a check.

14 I was wondering whether or not you might
15 have experiences in what issues we might need to
16 address to try to move these people, who are already
17 eligible for direct deposit, and have that banking
18 relationships already, into direct deposit.

19 MS. MILLER: I know that as far as AARP is
20 concerned, we would like them to have choices, and that
21 would answer that as far as we're concerned.

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1 MR. BLIESNER: Our experience in terms of
2 getting people to sign up, we -- we have worked with
3 the banks in the bank branches in the low income
4 neighborhoods where the predominant number of
5 recipients are, and people tend to trust their
6 interaction with a bank person.

7 And so we have asked the community
8 reinvestment personnel to do trainings with tellers
9 that they can automatically identify a particular
10 person who's coming in to cash a Government check.

11 They can say, "Do you know that we have
12 this account available for you, and it costs, so on and
13 so forth."

14 That -- that interaction seems to have a
15 high incidence of sign up for new recipients.

16 MS. LANE: Okay. Thank you very much for
17 testifying. We'll have a very brief change of Panel
18 break here.

19 Thank you.

20 (Whereupon, at 2:35 p.m., a brief recess
21 was taken.)

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1 MS. LANE: Okay. Let's get started with
2 Panel number 4. I'm going to introduce the Panel, and
3 you'll notice if you have an agenda from this morning,
4 there have been some changes.

5 First testifying will be Jerry Doyle, the
6 Department of Community Action. Followed by Tessa
7 Carmen De Roy from Communities for Accountable
8 Reinvestment.

9 Then a change, Selwyn Whitehead, who is
10 with the Economic Empowerment Foundation. And
11 testifying last will be Constance Botelho with the
12 California Reinvestment Committee.

13 Mr. Doyle.

14 MR. DOYLE: Thank you, very much. It's a
15 pleasure to be here this afternoon to be able to give
16 this testimony.

17 I started with thank, and I want to
18 apologize because I have to leave as soon as I finish
19 in order to catch a train, because it's a long walk
20 home.

21 And I wanted to also start off by telling

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1 you that I am representing three different
2 organizations today.

3 My own, which is the Riverside County
4 Department of Community Action, the Amador Tuwala
5 Community Action Agency, which is a two county agency
6 up in northern California.

7 And then the Association which represents
8 all community action agencies, Cal-Neva. Each of those
9 agencies have asked me to read their statement, too.

10 I'm going to combine the two. I want to
11 start off by mentioning the fact that one of the -- one
12 of the problems that I have with this, and I do not
13 proclaim to be a -- an expert in -- in this, or much of
14 anything else for that matter, but yesterday I attended
15 a teleconference from HUD, Housing and Community
16 Development.

17 And during that teleconference, they gave
18 us an 800 number that anyone in the United States could
19 call, and they could get instant help no matter where
20 they're at from HUD, that they would get direction as
21 to where to go. Great concept.

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1 About an hour after I returned to my office
2 in Riverside, I got a call from Washington. A reporter
3 there who happens to work for my local paper, from the
4 paper in my area.

5 He said, "Have you called that number?"
6 And I said, "No." And he said, "Well would you do it
7 for me?"

8 Well, I have a sense of humor so I called.
9 And it was -- the reason I say I have a sense of humor,
10 because it -- it kind of amused me that I would do a
11 think like that.

12 I called, and I didn't identify myself. I
13 don't think it would have made any difference. I told
14 them I was from Riverside.

15 "Well, where's that?"

16 "Well, it's in California."

17 "Well, we know where California is at, but
18 where is Riverside? What county is it in?"

19 "Well, it's in Riverside."

20 "Where was that being located at?"

21 "Well, it's between San Bernardino County

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1 and Orange County, and LA County, and it's north of
2 Emprio County."

3 "Well, we can't locate it. Don't have any
4 assets all."

5 Now you know, the funny thing of it is, the
6 reason I have a little bit of -- of difficulty in
7 dealing with some of the things that -- that are
8 created elsewhere without a real knowledge of what
9 California is like, is that we have 12 programs that
10 HUD supports.

11 We have two major grants from HUD, and they
12 should have known where Riverside County was, because
13 we have their programs going there.

14 But they referred instead, to San Diego
15 Country. And -- and I, again, I thought that was kind
16 of humorous.

17 The other thing that I wanted to address,
18 which is off the -- the notes, that had to do with a
19 gentleman from San Diego, the comments that he made
20 earlier in relationship to the check cashing.

21 The experience that I've had, and no

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1 personal experience, never had a check cashed at one of
2 those places.

3 However, the clients that I deal with, and
4 we deal with nothing but low income people, homeless,
5 low income people, just folks in that category, the
6 experience that I have is from anecdotal information
7 they gave me telling me that they were charged anywhere
8 from 20 to 30 percent to cash their checks.

9 And I said, "Well, why would you do a thing
10 like that? Why wouldn't you go someplace else?"

11 "Because I needed to get the check cashed."

12 And that's -- I -- I sort of am echoing the
13 -- the statement that the gentleman made earlier in
14 relationship to, I think you need to check very
15 carefully before you become associated in that
16 particular area.

17 Then I'll switch directly to some of the
18 information that was provided to me by Amador Tuwala
19 County.

20 The Amador Tuwala County Community Action
21 Agency, thanks the Department, as we all do, and they

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1 -- they want to commend the Treasury for bringing the
2 goal of the unbanked -- for the goal of bringing the
3 unbanked, which is most often the low income and
4 elderly into the banking system.

5 However, as an organization with over 16
6 years of experience in working with low income elderly,
7 and other unbanked populations, they feel that there's
8 some serious concerns regarding the implementation.

9 They had -- have had a problem there with
10 banks. They have had difficulty in keeping banks in
11 their -- because they're a small community by the fact
12 that they're two counties banded together under one
13 community action agency should tell you they're very
14 small.

15 And they had a very difficult time, and
16 only with a great deal of effort were they able to
17 maintain a single bank in the area. The closes bank
18 that is in this one community is 16 miles away.

19 Seniors, for the most part, once they get
20 really to be seniors up a little bit higher, most of
21 them don't drive, and it is difficult for them to deal

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1 with that kind of a problem.

2 Now, move on to -- by the way, my director,
3 Lois Carson, says that our position is exactly the same
4 as the one that I'll present to you from the Cal-Neva
5 Association, was the association of all community
6 action agencies in California and Nevada.

7 The Cal -- the Cal-Neva Association thanks
8 the Department, as again, I said we all do. The
9 commend the Treasury Department for bringing the
10 banking -- the unbanked into the system, and they
11 recognize that most often, the same group -- the low
12 income, the elderly are the ones that we're dealing
13 with.

14 With over 20 years of experience working
15 with agencies serving low income, elderly and other
16 unbanked populations, Cal-Neva has serious concerns
17 also about the implementation.

18 They will go on to say that Cal-Neva is an
19 association of 58 community action agencies, which is
20 what I've already told you.

21 The areas of concern -- they're

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1 particularly concerned about senior population and
2 other low income Federal benefit recipients, who will
3 be adversely affected by EFT unless the following four
4 areas are adequately addressed.

5 The four areas are: consumer protections,
6 access to Treasury, establish EFT account, waivers and
7 the educational campaign.

8 First on consumer protections, all persons
9 required to use EFT to access their benefits both
10 voluntarily opened accounts and the default Treasury
11 accounts must be protected from unreasonable fees, and
12 from banks contracting with non-bank entities such as
13 cash checking -- check cashing -- they have it
14 backwards -- to provide users access to their funds.

15 It is important to remember that the
16 voluntary accounts are often voluntary in name only.
17 We -- we must acknowledge that many recipients open
18 these accounts only because they felt they were forced
19 to in order to receive their benefits.

20 The proposed rules, despite Congress'
21 intent fail to impose even minimum consumer protections

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1 on accounts voluntarily opened because of the EFT
2 requirement.

3 All accounts, voluntary and Treasury opened
4 as a result of EFT must provide limits on monthly
5 account fees, provide access to cash withdrawals.

6 Now, again, I have to tell you that at this
7 point -- it has been a long day -- at this point many
8 of these things have been covered, and perhaps
9 adequately, but being at the lower -- the back end of
10 the agenda, I think that they at least need to be
11 reiterated upon.

12 The next thing is they need to prohibit
13 fees on point of sale transactions involved in a
14 purchase, sales transaction fees will burden not only
15 the amount or the account user, but harm small
16 businesses that will lose sales if the customer --
17 customer must pay an additional dollar to two dollars
18 to use their money to make these purchases.

19 Must provide access to information about
20 account balances and fees. ATMs -- that it's really
21 hard to use ATMs without acquiring quite a bit of

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1 additional cost.

2 Provide checking account and savings
3 options, as well as unlimited deposits. These options
4 are consistent with Treasury's goal of bringing the
5 unbanked into the banking system.

6 Provide that the debit credit issue to
7 users of the account established by Treasury carry the
8 name of the financial institution and same appearance
9 as the card used by other bank customers.

10 California is experimenting, or looking at
11 experimenting now with some cards for AFDC people that
12 would not be the same thing as using stamps and that
13 sort of thing.

14 They're trying to get a card that would
15 look just like everybody else's to eliminate the
16 embarrassment.

17 Provide the same protections as available
18 to other account holders. Provide up front, easily
19 understandable information and fees, and other account
20 terms.

21 The second point is to access to Treasury

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1 established EFT account. The Federal benefit
2 recipients will already -- with already established
3 accounts, and who wish to continue banking
4 electronically, should have access to the Treasury
5 established EFT account, if it provide better access
6 and lower fees.

7 I don't think anyone has covered that point
8 of this at this time. Because the limited banking
9 options and low income in small rural communities,
10 Treasury cannot assume that these previously opened
11 accounts were selected in a competitive banking
12 marketplace.

13 Also, bank mergers and sales can change the
14 original banking relationship and result in increased
15 fees and restrictions.

16 There are instances that I am personally
17 aware of where banks have through their little charges
18 each month, wiped out bank accounts completely --
19 people who have not much in those accounts.

20 So that is -- that is a concern there.
21 Those -- those charges are -- are there. Access to

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1 Treasury EFT account must be -- must also be available
2 to those Federal recipients using nonbank entities to
3 provide their funds.

4 To do so -- to do otherwise is to get
5 Treasury's endorsement for these entities to prey upon
6 vulnerable customers.

7 Next issue is waivers. Cal-Neva agrees
8 with self certification for waivers. The category of
9 waivers, however, must be expanded.

10 Waivers must be expanded to include mental
11 disability, which has been covered, and adequate
12 literacy skills and lack of English fluency.

13 In Riverside County, this is -- this is a
14 fact. In Riverside County on the -- the WIC program,
15 women, infants and children program, 22 percent of the
16 ladies who are on that program are -- are not even high
17 school graduates -- are at a very low level as far as
18 literacy is concerned.

19 We have -- we have numerous literacy
20 programs that we have instituted. And so this -- this
21 applies equally to my county as well as up north.

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1 Waivers -- many developmentally disabled
2 people or individuals stand to lose both their
3 financial and personal independence, if the waiver
4 category is not expended to include mental
5 disabilities.

6 According to the local service provider for
7 the developmentally disabled, only a small percentage
8 of their clients have representative payees.

9 A significant number of the developmentally
10 disabled can independently man -- only a small
11 percentage can -- can manage their own affairs.

12 Someone asked a question earlier about what
13 people are doing now who are having this -- this
14 difficulty, and the answer is, they're not doing well
15 at all.

16 Some are what HUD has identified as -- as
17 homeless people who just sort of wander in and out.
18 They are in a place to live for a couple of days a
19 month. And the rest of the month, they're out in the
20 streets.

21 So the answer is, they're really not doing

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1 well at all. That's another problem, however. This
2 would just simply exacerbate the -- the situation.

3 Not only will a hard fought battle for
4 independence be lost, but those -- these
5 developmentally disabled individuals will also be
6 vulnerable to unscrupulous representative payees.

7 It just makes them more vulnerable at -- at
8 that level.

9 On the education campaign, the education
10 campaign should be stopped until details of the
11 Treasury established account are known, and until
12 waiver categories are expanded.

13 The education campaign must go beyond
14 extolling the benefits of electronic fund transfer to
15 providing information on account options, how to select
16 options, and consumer rights.

17 And I do not believe that, as far as the
18 educational program is concerned, I do not believe that
19 you should overlook the community action agencies,
20 because we do a great -- great deal now on consumer
21 education.

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1 And that's throughout the state. And I
2 thank you for the opportunity to address you.

3 MS. LANE: Thank you very much for your
4 testimony, Mr. Doyle. Ms. De Roy.

5 MS. DE ROY: Good afternoon. My name is
6 Tessa Carmen De Roy, and I work with a community
7 organization called Sage.

8 Sage currently serves as the convener of
9 communities for accountable reinvestment, which is a
10 coalition that's been a grass roots constituency on
11 banking issues in Los Angeles for the last 10 years.

12 I'm here today to talk about the equity
13 issues that raise questions and concerns about not only
14 EFT, but all electronic distribution of Government
15 benefits.

16 And I'm going to take a somewhat different
17 tact. I'm basically going to tell you a story of
18 what's happened locally.

19 To start with, it's important to understand
20 that the existing access to banks and electronic
21 infrastructure in Los Angeles is unevenly distributed.

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1 For example, in the 60 square mile area
2 that makes up South Central Los Angeles, there are 133
3 check cashing outlets, and approximately 10 bank
4 branches.

5 And six or seven of those bank branches are
6 located in the few remaining business hubs, so the
7 distribution is extremely uneven.

8 It's critical that the implementation of
9 this new policy correct, rather than reenforce and
10 exacerbate the historical inequities that have created
11 this situation.

12 Electronic banking is only useful if one
13 has access to electronic infrastructure. And,
14 unfortunately, banks are not the only large businesses
15 that have left the community.

16 If you drive around the neighborhood,
17 you'll notice that there are very few supermarkets,
18 large retailers or drug stores, venues that many banks
19 are beginning to partner with in order to access the
20 community.

21 And since the standard services that one

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1 expects just aren't present, they are -- the standard
2 services are -- just aren't present because people --
3 there's a systematic disinvestment from these
4 communities.

5 So let me start off by telling you about
6 what electronic transfer benefits looks like from the
7 street level.

8 While California does not yet have an
9 official electronic benefits transfer program, LA
10 County did begin to distribute benefits electronically
11 for AFDC, TANIF and GR in June of this year.

12 For years and years postal workers have
13 been mugged while delivering benefit checks, and so
14 last year, after their union took this concern on as a
15 health and safety issue, the County decided that it
16 would be safer to distribute check -- cash benefit
17 checks electronically.

18 Since check cashers were the only
19 businesses in low income communities that could afford
20 to develop the infrastructure -- the electronic
21 infrastructure necessary to receive these benefits

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1 under the new system, the County contracted with these
2 outlets to serve as distribution centers.

3 Originally, there were 44 sites where
4 recipients could pick up their checks. It's 44 sites
5 in a 600 square mile area, okay, for 350,000
6 recipients, slightly different than many of the other
7 communities that we're dealing with, I'm sure.

8 As additional outlets were contracted to
9 serve as distribution centers, the original 44 check
10 cashers saw their market shares cut in upon, and their
11 profits fading away, they tried to sue the County and
12 lost.

13 In order to avoid overcrowding at these
14 sites, at the 44 original sites, and this continues,
15 and to accommodate the distribution preferences of
16 Wells Fargo Bank, who issued the checks, the County
17 began to stagger the distribution of benefits over a 10
18 day period.

19 It probably didn't hurt that the County was
20 also making a float on the \$170 million over that 10
21 days, or a portion of it every day.

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1 Suddenly people who usually received their
2 benefits on the 1st of the month were no longer able to
3 access them until perhaps the 5th, the 7th, or the
4 10th, and unfortunately, many landlords were unwilling
5 or unable to wait several extra days, and many
6 recipients found themselves facing three day notices,
7 evictions, or at best, perpetual late fees.

8 The new system also made it expensive and
9 dangerous to get a benefit check. The people who had
10 been robbing the mail carriers got wise to the system
11 pretty quickly, and they -- there have been several
12 muggings directly outside of the check cashers on
13 benefit distribution days.

14 The expenses created by the distribution
15 system ranged from the costs of travelling to and from
16 the distribution center itself to the charges incurred
17 to cash the benefit check on site.

18 Under the Los Angeles system, no direct
19 deposit option was offered. So recipients have been
20 forced to use the check cashers whether or not they're
21 banked.

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1 Nonetheless, 20,000 recipients monthly have
2 made their way to -- to the issuing bank, Wells Fargo,
3 in order to avoid the fees of these -- of the check
4 cashers.

5 There, they're greeted with a flyer
6 directing them either to an armored car in the parking
7 lot, which serves as a teller for people on public
8 assistance, or to another check cashing outlet that
9 Wells Fargo has contracted with to handle the recipient
10 traffic and their branches.

11 Wells Fargo now subcontracts with the check
12 cashier where benefit checks can be cashed free of
13 charge.

14 It's clear that the check cashers have made
15 themselves a one stop center for many of the services
16 that are no longer available in poor communities.

17 Several serve, as we heard earlier, as
18 utility payment centers. Many now offer to pay -- pay
19 day advances which amount to \$200 loans offered at
20 usurious interest rates.

21 However, while these businesses reap

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1 enormous profits in communities where banks say, "No
2 profit can be made," they do not offer a safe place for
3 people to save their money, earn interest, or develop
4 a credit history.

5 And while the \$200 pay day loans are credit
6 of a sort, they're not enough money to start a business
7 or buy a home, or even a computer for that matter.

8 And the rates are comparable to those
9 available through a loan shark. It's clear that the
10 banks do not intend to build free standing branches, or
11 reopen branches in these communities, and that at best,
12 most are focused at this moment -- moment in time on
13 developing partnerships with the markets or large
14 retailers, like the recent partnership between Wells
15 Fargo and Starbucks.

16 But there are very few markets or retailers
17 with significant presence in poor communities, and
18 certainly no Starbucks in South Central or Pocomima.

19 It's unfortunate that Linda Burton, who was
20 supposed to be on this panel could not be here today.
21 She broke her foot last night.

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1 Linda is, herself, a benefit recipient, and
2 basically lead the -- the charge to organize and
3 educate and fight to make the system in Los Angeles
4 work for people, and we just recently won a direct
5 deposit option for people receiving AFDC in Los Angeles
6 County that will allow people to make use of low and no
7 fee checking accounts.

8 As we heard earlier, there are several
9 lifeline accounts that have a small fee, but if you
10 direct deposit you check, the fee gets waived.

11 We are still hard pressed, however, to
12 figure out where people will access branch services in
13 these communities.

14 So the challenge facing all of us is how we
15 can make sure that EFT and all electronic banking can
16 be as accessible and affordable for people in poor
17 communities as it is for people affluent areas.

18 If check cashers are the infrastructure
19 that these programs will depend upon, then we need to
20 think about regulating that industry.

21 If we're serious about making mainstream

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1 banking services attractive to recipients, and getting
2 large numbers of people banked, then we have to make
3 sure that the bank services are available within a
4 reasonable distance of where people live, and at a
5 reasonable cost.

6 Both Sage and CAR, the two organizations
7 that I represent, would be happy to participate in a
8 pilot program to help determine what would be needed to
9 make EFT convenient and safe, and affordable to
10 residents in low income neighborhoods, and to avoid the
11 kinds of problems that I've just described from our
12 recent experiences with electronic transfers here in
13 Los Angeles.

14 We have a lot of informational
15 relationships that could help jump start a program like
16 that quickly, and I would encourage you to consider
17 that option before implementing a program that will not
18 meet community needs.

19 I would also encourage you to look at the
20 testimony -- the written testimony that was submitted
21 on behalf of Ms. Burton.

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1 It -- she was, herself, a teller and went
2 through several mergers and closures in South Central,
3 and has watched all the bank branches close and move
4 away.

5 So she has a very interesting and extremely
6 informed perspective on what it means to be a recipient
7 who used to be a bank teller, and to be told that
8 you're not allowed to have a bank account in Los
9 Angeles under the County system.

10 But I think it would also provide some
11 insights around how this system might represent
12 barriers in communities where there's just no
13 infrastructure.

14 Thank you.

15 MS. LANE: Thank you. Ms. Whitehead?

16 MS. WHITEHEAD: Hello. Is it on? Okay.
17 Good afternoon. I'm Selwyn Whitehead. I'm the
18 President and the Executive Director of the Economic
19 Empowerment Foundation.

20 I wanted to take this opportunity to thank
21 the Department of the Treasury for holding this

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1 important forum in California.

2 The Economic Empowerment Foundation is an
3 independent, California based, urban center, applied
4 economics research, community economic empowerment
5 education and consumer information, communications, as
6 well as women, consumer or color, urban residents and
7 small businesses advocacy organization.

8 To its fact, an ethics based research,
9 education, information, communications and advocacy
10 program.

11 EEF contributes to the economic stability
12 and revitalization of California Urban centers to the
13 benefit of those who live and work there, and our
14 society as a whole.

15 EEF's primary objective is to make sure
16 that California urban center residents and small
17 businesses have the same or similar access to the
18 financial resources they require for their economic
19 survival as their suburban and rural neighbors.

20 Founded on December 30, 1991, EEF is a non
21 partisan public benefit corporation exempt from taxes.

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1 EEF believes that the goals of social justice and
2 economic strength can only be achieved in a society
3 that fully integrates people of color, women and urban
4 residents into its market systems.

5 EEF strives to reform the various segments
6 of the financial services industry, including banks,
7 insurance companies and capital formatters.

8 To become more human, yet businesslike in
9 their relationships and dealings with people of color,
10 women and urban residents, EEF monitors the activities
11 of regulators and oversight legislators of the
12 financial services industry, and on more than one
13 occasion intervenes to legally compel those regulators
14 and legislature to discharge their sworn duty to
15 protect the public with the highest degree of ethics
16 and fairness.

17 This is a continuation of a project that
18 I'd been working on for the last five years. In fact,
19 I'm rather tired, because I've spent most of the
20 weekend up in Seattle.

21 I also represent California insurance

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1 consumers before the National Association of Insurance
2 Commissioners.

3 They, like you all, are using, or shall I
4 say, potentially misusing -- or shall I be more polite
5 and say, being rather arrogant with the use of
6 technology.

7 And it tends to create what I call, or what
8 others have called the Tiffany Walmart access approach
9 to urban residents -- or maybe I should rephrase it,
10 Tiffany Walmart \$1.99 store kind of approach, where,
11 you know at the one end, those who are very affluent
12 get Tiffany kind of services, middle income consumers,
13 get Walmart, and it appears now that we're going to
14 have this \$1.99 kind of store you probably don't have
15 in your communities, but out at the east mall, it's a
16 place where you supposedly could get anything for no
17 more than \$1.99.

18 And it's quite unusual looking merchandise.
19 Like many advocates across the country, I have major
20 concerns at the implementation of Electronic Funds
21 Transfer 99 will negatively impact low to moderate

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1 income Government benefit recipients.

2 However, due to time constraints, I will
3 focus my comments today on the potential negative
4 impact EFT 99 will have on our small business
5 community.

6 As it is the one area the proposed rule
7 does not address, well I'll correct that it does say
8 that you all don't think it's that big of a deal,
9 because you have two categories of waivers that I don't
10 think addresses either one of the needs.

11 While there are numerous public policy
12 reasons to shift to electronic benefits transfers, like
13 most policy actions, there may be unintended
14 consequences.

15 My concern is that many small businesses
16 will be at a negative, competitive disadvantage for two
17 reasons if no economic and technical assistance is made
18 available to them.

19 1) Electronic benefits transfer will lower
20 the cost of operations for large businesses to capture
21 their customers.

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1 2) Their customers will migrate to those
2 businesses that offer a full array of electronic
3 services.

4 Thus the financial viability of our small
5 business merchants, which is crucial to the economic
6 stability of my community, Oakland, California, and I'm
7 sure Los Angeles, and I'm sure other urban centers
8 across the country will be undermined.

9 Like the switch to electronic banking,
10 generally the use of Electronic Funds Transfer for
11 Government benefits will require --

12 MS. LANE: Excuse me, Ms. Whitehead.

13 MS. WHITEHEAD: Oh.

14 MS. LANE: The tape change.

15 MS. WHITEHEAD: Okay.

16 (Whereupon, at 3:10 p.m., a brief recess
17 was taken.)

18 MS. LANE: Okay.

19 MS. WHITEHEAD: As I was saying, like the
20 switch to electronic banking, generally the use of
21 Electronic Funds Transfer for Government benefits will

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1 require consumers to be familiar with electronic
2 commerce technologies.

3 And will require merchants to have point of
4 sales electronic transaction capabilities. The latter
5 requirement will be particularly important for small
6 neighborhood merchants, many of whom currently cash
7 benefits checks for the -- I have unbanked, but I like
8 that cash consumer -- I like that -- that term better
9 -- neighborhood residents for free with a purchase of
10 some level of goods or services.

11 And who stand to lose an important customer
12 base if they cannot continue to provide goods and
13 services to these customers in a cash free environment.

14 Again, for this population of residents and
15 merchants, there is an urgent need for access to low
16 cost bank accounts, or no cost bank accounts,
17 electronic banking facilities in the communities in
18 which they live, and sufficient electronic point of
19 sales transaction and banking and commerce equipment
20 for both consumers and merchants.

21 The Federal Government and the banking

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1 communities are high on Electronic Funds Transfers,
2 because there are enormous savings that will have
3 experiences resulting of implementation.

4 According to you all, Electronic Funds
5 Transfer will save the Federal Government as much as \$1
6 million a year in processing costs alone.

7 And thank you, Mr. Staples, for indicating
8 that you're actually going to be saving me this money,
9 because since it's my money that makes me feel even
10 more confident in telling you what to do with my money.

11 And banks will save many times that amount
12 by closing down bank branches and moving their
13 customers to electronic forms of banking.

14 And don't think that this isn't being
15 perceived as a -- a red flag, an opening of a window of
16 opportunity that you might not have intended to be so.

17 To put it bluntly, my concern is how the
18 public is going to share in this financial windfall.
19 How do we make sure that Government and industry
20 provide recipients and small business distributors of
21 electronic payments a share of the enormous cost

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1 savings that we, you, us -- all of us are going to see
2 as a result of electronic benefits in 1999.

3 Our proposal. In order to address this
4 urgent issue, I'm asking you all to work in concert
5 with local, knowledgeable community based organizations
6 and local governments to have major banks and
7 yourselves underwrite electronic banking and commerce
8 pilot projects in my home city of Oakland and across
9 the country including Los Angeles, which offer
10 electronic commerce outreach, education, and the
11 hardware and software to be used by individual
12 consumers and small business merchants.

13 That you have a better understanding of my
14 position, I've provided a copy of our concept paper
15 entitled, "San Antonio Economic Community Project -- A
16 Concept Paper."

17 This paper was developed under the auspices
18 of the City Council of the City of Oakland as a result
19 of Bank of America's decision to close its branches at
20 East 18th Street in Oakland.

21 We had hoped Bank of America, as the

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1 largest bank in the west with some \$257.5 billion in
2 assets would show some leadership by undertaking this
3 citywide pilot to help our communities transition to
4 electronic commerce.

5 I offer it today as a kind of project that
6 the Treasury should be willing to help underwrite with
7 a small portion of our cost savings.

8 The essence of the pilot program calls for
9 the major financial beneficiaries of Electronic Funds
10 Transfer 99, the banks and us through you to provide to
11 the parties who must bear the burden of the transition
12 to Electronic Funds Transfer, the cash consumer portion
13 of our population, along with the small business
14 merchants who currently provide the goods and services
15 with the means to develop, achieve and maintain access
16 to the state of art electronic banking and electronic
17 commerce service delivery systems needed to replace the
18 brick and mortar face to face, cash based access some
19 of us have had and grown accustomed to, that all of us
20 should have had.

21 To implement the pilot will require that

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1 the banks and the Treasury, us, be responsible for
2 supplying some number of point of sales terminals,
3 personal computers and software, as well as on-site
4 technical assistance and training to a selection of
5 community based, economically disadvantaged small
6 businesses.

7 To be effective, the pilot must be
8 inclusive of the entire community. As such, we would
9 also need the banks and us to supply some number of
10 personal computers and software to a selection of
11 community based non-profit services organizations.

12 These entities will use the computers to
13 assist the electronic commerce education and training
14 of the community.

15 Examples of appropriate organizations
16 include school districts, libraries, churches, senior
17 citizen centers, community centers, and other
18 strategically located non-profits that are willing and
19 able to offer education support.

20 In conclusion, I would offer that the
21 growth of the electronic banking, electronic commerce,

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1 electronic benefit transfer, the use of credit reports
2 to decide who gets insurance and who doesn't, the use
3 of internet to sell all kinds of products including
4 insurance.

5 We must do all that we can to assure that
6 the expansion of the electronic highway does not bypass
7 our most vulnerable communities and vulnerable
8 businesses.

9 Sufficient electronic on ramps must be
10 constructed. As a tax payer, I'm willing to pay part
11 of the freight.

12 I hope you would agree, and I trust you can
13 see the need and the merit of this proposal.

14 Thank you, very much.

15 MS. LANE: Thank you, Ms. Whitehead. Ms.
16 Botelho?

17 //

18 MS. BOTELHO: Good afternoon. My name is
19 Constance Botelho, and I'm the Program Associate with
20 the California Reinvestment Committee, or CRC.

21 Thank you, very much for the opportunity to

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1 present the views of CRC's members on the Treasury's
2 proposal rule to implement EFT 99.

3 As Alan Fisher from CRC mentioned before,
4 CRC is a statewide membership organization of 180
5 members.

6 We use the Community Reinvestment Act to
7 advocate for increased access to credit and financial
8 services for low income people, and people of color.

9 We are particularly concerned with the
10 impact that EFT 99 on Federal payment recipients who do
11 not have bank accounts.

12 Treasury's own study reveals that more than
13 50 percent of these people object to legislation that
14 would require direct deposit.

15 As CRC's mission is to increase access to
16 financial institutions, we agree with Treasury that EFT
17 99 presents the unique opportunity to bring Federal
18 payment recipients without bank accounts into the
19 financial mainstream.

20 However, in order to accomplish this
21 without imposing any undue financial burden on these

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1 recipients, Treasury must modify its proposed rule.

2 Okay, I will comment on four topics, some
3 of which have -- all of which at this point actually
4 have been touched upon.

5 Hopefully I have some new things to say
6 about them, and I want to reiterate what's been
7 mentioned already.

8 Number one, the waiver provisions must be
9 broadened.

10 Number two, Treasury's public education
11 campaign must inform recipients of all of their
12 options.

13 There must be a guarantee that protections
14 against attachment and set off which exist in current
15 law will apply to funds electronically transferred into
16 ETA accounts, or other accounts.

17 And lastly, that the blanket waiver
18 provision that was mentioned earlier found at the end
19 of the proposed regulations, which authorize the
20 Secretary to waive any provision of the rule must be
21 changed.

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1 First on the waivers. We are pleased with
2 Treasury's proposal to allow recipients to self certify
3 their eligibility for these waivers.

4 However, the waiver provisions must be
5 broadened to allow waivers for hardships posed by
6 mental disabilities, a lack of literacy, or language
7 barriers.

8 The financial hardship waiver should be
9 available to recipients regardless of whether or not
10 they have a bank account.

11 This is especially critical for all those
12 recipients who open voluntary accounts simply in order
13 to comply with the new law only to learn that after a
14 few months they can't afford the account that they've
15 opened.

16 The proposed rule implies that recipients
17 will have only one opportunity to waive out of EFT.
18 Recipients must be able to get waivers at any point.

19 Because there are any number of reasons why
20 recipients who are able to participate in EFT now may
21 not be able to in the future, a one time only policy is

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1 not rational.

2 For instance, the consolidation of the
3 banking industry is leaving many communities,
4 particularly low and moderate income communities, which
5 -- some of which you heard about today, without retail
6 branches.

7 If a recipient establishes an account at a
8 local branch, which later closes leaving them no access
9 point by which to access their account in their
10 neighborhood, then this person should have the ability
11 to then waive out of EFT due to a geographic barrier.

12 There are obviously other examples as well
13 of physical disabilities that would happen over time,
14 and also the financial hardship waiver which I
15 mentioned earlier.

16 Additionally, all the EFT waiver categories
17 should be available to all Federal payment recipients
18 regardless of when they began receiving their payments.

19 Lastly, the usefulness of the waivers is
20 only as good as the Treasury's ability to publicize
21 their availability.

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1 People must know that there are waivers,
2 and that they can self certify their own eligibility.
3 This means the information on the waivers, which
4 Treasury distributes must be easy to read, available in
5 several languages, and sent along with a first official
6 notice about the proposed program.

7 Okay. Number two, regarding the public
8 education campaign. We understand the Treasury
9 Department will launch a public education campaign to
10 inform recipients of EFT 99, and to encourage them to
11 receive their benefits electronically.

12 It is critical that this campaign informs
13 people of all their options. In addition to the
14 availability of waivers, recipients need to know about
15 the Treasury's proposed electronic transfer account,
16 and the temporary waiver that they will receive if they
17 don't have a bank account until the electronic transfer
18 account becomes available.

19 Recipients that are persuaded to open
20 accounts before the ETA is available could easily fall
21 prey to the abuse of practices of check cashers which

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1 we've heard a lot about today, or open bank accounts
2 that are too costly.

3 As Treasury's no doubt aware, after the
4 hearings, I know in Baltimore it came to Treasury's
5 attention that check cashers had begun advertising the
6 discontinuance of SSI checks and social security checks
7 slated for 1999.

8 Clearly there's a real and present danger
9 that recipients who depend on their Federal checks for
10 their survival will be lured in by these false
11 advertisements to insure that they keep receiving
12 payments.

13 One of the problems which has already been
14 touched on earlier by Alan and by others is that check
15 cashers cash -- charge, I'm sorry, exorbitant fees for
16 their services.

17 The other problem with the establishment of
18 voluntary accounts -- with one of these check cashers
19 is that according to the proposed rule, once the
20 account is set up, recipients are no longer eligible
21 for an electronic transfer account or financial -- or

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1 for a financial hardship waiver.

2 Given that Treasury has held two community
3 outreach initiative meetings on EFT 99, it's clear that
4 Treasury understand that consumer and community groups
5 are in many ways best equipped to have a face to face,
6 hands on contact with the recipients, which is
7 essential for the success of the program.

8 To accomplish Treasury -- to accomplish
9 Treasury's education and outreach goals, I would like
10 to personally -- I say personally suggest that the
11 Federal Government annually grant \$20 million of its
12 estimated \$100 million in annual savings from the ETF
13 -- EFT program to community and consumer non-profit
14 organizations to help Treasury spread the word about
15 the EFT 99 program.

16 This financial support would be given on an
17 annual basis to these non-profits during the start up
18 years of the program.

19 Additionally, we believe that the Federal
20 Government has a responsibility to fill the gap that
21 will exist in basic banking instruction, ATM

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1 demonstrations and the like.

2 For those unbanked recipients who either
3 open voluntary accounts, or who have electronic
4 transfer accounts, these educational workshops and
5 demonstrations could be conducted by financial
6 institutions and community organizations, and then be
7 subsidized by the Federal Government during the first
8 few years of the program.

9 Obviously the information on the EFT 99
10 must be clear, easy to understand and available in
11 several appropriate languages, which I know has been
12 touched upon throughout the course of today's hearing.

13 Thirdly, the protections from attachment
14 and set off which were also addressed earlier. Despite
15 the clear protections in Federal law against attachment
16 and garnishment of social security, supplemental
17 security income and VA benefits, numerous consumers do
18 not use bank accounts because they're afraid their
19 limited funds will be attached or taken by judgment
20 creditors.

21 Treasury's proposed regulations do not

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1 adequately address this issue. I understand that one
2 of Treasury's goals is to demonstrate the benefits of
3 electronic transfer, or direct deposit to those
4 recipients who already have bank accounts, yet choose
5 to continue receiving paper checks.

6 Letting recipients know that their Federal
7 payments are protected, even if they're electronically
8 deposited will help Treasury accomplish its goals,
9 while at the same time reassuring the recipients that
10 their money will be safe from judgment creditors.

11 Treasury's regulations should flatly
12 prohibit the attachment or garnishment of any funds in
13 an account into which the covered Federal benefits have
14 been deposited.

15 Lastly, on the proposed Section 208.10, we
16 believe that this Section 208.10 must be modified.
17 Without offering any explanation as to the need for, or
18 intent of this provision, Treasury simply proposes
19 adding a regulation that would enable the Secretary to
20 waive any provision of these rules whenever the
21 Secretary deems it necessary or appropriate, without

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1 having to go through a formal rule making process or
2 apparently any other formal review process.

3 This sounds like a loop hole. This
4 provision would give the Secretary the power to
5 withdraw any of the of the protections granted by the
6 rule at his or her discretion.

7 If this provision is intended to give the
8 Secretary the right to change provisions of the rule,
9 only in the face of some unexpected failure in the
10 system, which requires immediate attention, then the
11 rule must clearly state this.

12 Further clarification of this Section is
13 required to close this loop hole and limit the
14 Secretary's ability to change the rule as he or she
15 sees fit.

16 In closing, CRC does see the potential
17 benefits of EFT 99, yet the proposed rule does need to
18 adequately -- more adequately address the concerns that
19 I and others have brought up today, and also at the
20 public hearings.

21 We hope that Treasury will modify its

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1 proposed rule by incorporating these -- these
2 recommendations, and thank you again for the
3 opportunity to share the views of CRC's members.

4 MS. LANE: Thank you. Questions from the
5 Panel?

6 MR. STAPLES: Yes. Ms. Botelho, on the
7 attachments issue again, let me ask my question. Would
8 you recommend restricting funds going into the ETA
9 account to the protected funds?

10 MS. BOTELHO: I know this came up the last
11 time, and I actually wasn't in the room when the
12 question came up, but I -- I do feel that the way that
13 I have worded it, and the way that I was thinking about
14 it, and I'm not sure how this would -- maybe the
15 lawyers could respond to this, is that if the -- the --
16 if the accounts that the funds are in, all the funds in
17 that account would be protected.

18 I do believe that there's a trade off there
19 between having the ability to deposit funds from, say,
20 your family, or from other sources into those accounts,
21 I think that should be an option for people.

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1 MR. STAPLES: You would want to allow other

2 --

3 MS. BOTELHO: Yeah.

4 MR. STAPLES: -- deposits into the account?

5 MS. BOTELHO: Uh, huh.

6 MR. STAPLES: Okay.

7 MS. LANE: Miss Whitehead, in reading your
8 proposal, it looked like it was a pilot of what might
9 eventually be an ETA account, and some other features,
10 also, training and -- a training center, do you -- my
11 question is, do you have any sense of how much your
12 pilot would cost?

13 MS. WHITEHEAD: The detailed proposal, that
14 was for a specific instance, what I had what I'm
15 envisioning now is to select the small mom and pop kind
16 of merchant in Oakland, and not only provide them with
17 an upgrade of the terminal that I understand that the
18 Department of Agriculture's going to provide, but one
19 that would allow them to use a wide array of
20 transaction type cards, American Express, ATMs or
21 whatever.

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1 And I understand that that's an additional
2 several hundred dollars, so I'm asking for that amount
3 of money to be waived.

4 In addition, these merchants, since we have
5 the opportunity to capture them, I would like them also
6 to have a -- a lap top computer and selected software.

7 They -- they can handle their own telephone
8 access, because they -- they are in business, but our
9 -- when our economist did a -- a proforma, we were
10 looking at \$2,500 to \$3,500 worth of equipment,
11 including the upgrade of the point of sale terminal.

12 And the training might be something that a
13 -- a group could handle with a staff of -- of four or
14 five people going on a rotating basis, maybe initially
15 weak -- you do have to go to the merchant's shop.

16 This is not something that the merchants
17 can shut down his business and go to a training center.
18 You would have to go to his or her shop and probably
19 sit with the merchant maybe two hours initially, and
20 then trailing off as they became more comfortable.

21 But the idea would have -- would be to have

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1 them do their banking on line with -- with the bank.
2 And the idea would be to instill in that merchant who
3 already has a spirit that the community wants to
4 foster, that is not be an employee -- be an employee,
5 be an employer, and that person could then help spread
6 the -- evangelize, as it were, electronic commerce
7 throughout his or her community.

8 And so we think it's a worthwhile
9 investment.

10 MS. LANE: Thank you.

11 MR. HAMMOND: If I could follow up just a
12 little bit, Ms. De Roy. You mentioned the penetration
13 of check cashing outlets in South Central LA and
14 compared with retail branch outlets.

15 I was wondering if you had any information
16 available on ATM penetration in that same area, and in
17 addition, whether point of sale at -- at merchants,
18 realizing that, for example the large supermarkets may
19 not be there, whether there's any point of sale
20 penetration as well?

21 MS. DE ROY: I don't have specific numbers

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1 with me on ATMs. I can certainly make that available
2 to you.

3 It's not a whole lot higher. The, I mean
4 the infrastructure is so decimated at this point, that
5 there's very few places to put ATMs.

6 There's very few places to put point of
7 sale, because the retailers that are -- that remain in
8 the neighborhood are mom and pop establishments by and
9 large, and don't have the -- the capital to make those
10 improvements.

11 MR. HAMMOND: Thank you.

12 MS. LANE: Other questions? Mr. Staples.

13 MR. STAPLES: I'm just going to thank Ms.
14 Whitehead for getting us her paper in advance. I was
15 able to use it in my preparation.

16 MS. LANE: Okay, thanks to this Panel. I
17 have a couple of announcements. If you wouldn't mind
18 just waiting a minute, because we had on our agenda a
19 fifth panel.

20 As it turns out, two of the people on that
21 panel had been moved to earlier panels, and the

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1 remaining panelists are going to submit their testimony
2 in writing.

3 So we won't be having a fifth panel. So in
4 conclusion, I would like to thank everyone who's
5 testified today.

6 Thank the people who stayed with us all
7 day. We've appreciated the -- the comments and the
8 ideas you've given us.

9 I'd like to remind everyone that written
10 comments are due by December 16th, which is next week,
11 and point out that we will have the transcript of this
12 Hearing on our web site in about two weeks.

13 And I'd like to ask if people don't have
14 access to the internet, and would like a paper copy, if
15 you'd let someone from Treasury know today, we'll make
16 sure we -- we'll make that available to you as soon as
17 the transcript's available.

18 So thank you, very much.

19 (Whereupon, at 3:30 p.m., the above-
20 entitled matter concluded.)

21

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